



**Mkhondo Local Municipality**  
Annual Financial Statements  
for the year ended 30 June, 2023

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## General Information

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|  |                                   |
|--|-----------------------------------|
| <b>Legal form of entity</b>                        | Municipality                      |
| <b>Nature of business and principal activities</b> | Operating as a Local Municipality |
| <b>Mayoral committee</b>                           |                                   |
| Executive Mayor                                    | Cllr N. Ndlovu                    |
| Speaker of Council                                 | Cllr M.Z. Ngwenya                 |
| Chief Whip   | Cllr S.D. Thwala                  |
| MMC Technical                                      | Cllr. D.M. Thwala                 |
| MMC Community Services                             | Cllr. W. Vilakazi                 |
| MMC Corporate Services                             | Cllr. M.T. Mkhabela               |
| MMC Planning and Economic Development              | Cllr. T.E. Khumalo                |
| MMC Finance  | Cllr. T.W. Manana                 |
| Councillors  | Cllr. M.A. Simelane               |
|  | Cllr. M. Dlamini                  |
|  | Cllr. S.P. Mkwanzani              |
|  | Cllr.S.P. Sibiya                  |
|  | Cllr. N. D. Sangweni              |
|  | Cllr. B. E. Mayisela              |
|  | Cllr. M.N, Mbatha                 |
|  | Cllr. J.M Nkosi                   |
|  | Cllr. I.Brossow                   |
|  | M.S. Ngwenya                      |
|  | Cllr. M. Z. Thomo                 |
|  | Cllr. N.G. Gwebu                  |
|  | Cllr. M.R. Mhlanga                |
|  | Cllr. N.S. Mthethwa               |
|  | Cllr. S.M. Shoba                  |
|  | Cllr. T.M. Qwabi                  |
|  | Cllr. M.S. Lukhele                |
|  | Cllr. D.M. Ntshakala              |
|  | Cllr B.M. Khumalo                 |
|  | Cllr. M. Dlamini                  |
|  | Cllr. S.J. Methula                |
|  | Cllr. B.A. Dlamini                |
|  | Cllr. T.W. Tshandu                |
|  | Cllr. S.P. Sibiya                 |
|  | Cllr. N.N. Zulu                   |
|  | Cllr. V.S. Hlophe                 |
|  | Cllr. L.L Ngubeni                 |
|  | Cllr. D.W. Nkosi                  |
|  | Cllr. E.F. Nkosi                  |
|  | Cllr. J.R. Sibiya                 |
|  | Cllr. T.H. Mtshali                |
|  | Cllr. H.W. Weber                  |
| <b>Grading of local authority</b>                  | 4                                 |

# **Mkhondo Local Municipality**

Annual Financial Statements for the year ended 30 June, 2023

## **General Information**

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**Accounting Officer**

Mr. M.S. Dlamini

**Chief Finance Officer (CFO)**

Mr. F.C. Munzhelele

**Auditors**

Auditor General South Africa

# Mkhondo Local Municipality

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### Abbreviations used:

|       |   |
|-------|---|
| COID  | Compensation for Occupational Injuries and Diseases |
| DBSA  | Development Bank of South Africa                    |
| GRAP  | Generally Recognised Accounting Practice            |
| HDF   | Housing Development Fund                            |
| IAS   | International Accounting Standards                  |
| IPSAS | International Public Sector Accounting Standards    |
| MFMA  | Municipal Finance Management Act                    |
| mSCOA | Municipal Standard Chart of Accounts                |

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Accounting Officer's Responsibilities and Approval

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June, 2024 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the municipality for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August, 2023 and were signed on its behalf by:

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**Mr. M.S. Dlamini**  
**Acting Municipal Manager**

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Accounting Officer's Report

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The accounting officer submits his report for the year ended 30 June, 2023.

### 1. Review of activities

#### Main business and operations

The municipality is engaged in operating as a local municipality and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

### 2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

### 3. Subsequent events

Subsequent to year end, Council approved the write off of UIFW to the amount of R1,147,968,457. The amount of the write is made up of Unauthorised expenditure amounting to R970,950,105; Fruitless and Wasteful expenditure amounting to R76,870,840 and Irregular expenditure amounting to R100,147,512. The write off was done after the Municipality subjected the UIFW to Forensic investigations.

### 4. Accounting Officers' interest in contracts

The accounting officer has no interests in the contracts awarded during the period under review.

### 5. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

### 6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

| Name             | Changes  |
|------------------|--|
| Mr. B. Maseko    | Resigned Thursday, 22 December, 2022                                       |
| Ms Z. Mtethwa    | Appointed Friday, 23 December, 2022,<br>resigned Tuesday, 31 January, 2023 |
| Mr. M.S. Dlamini | Appointed Wednesday, 1 February, 2023                                      |

### 7. Corporate governance

#### General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The salient features of the municipality's adoption of the Code is outlined below:

#### Executive Mayor and Municipal Manager

The roles of Executive Mayor and Municipal Manager are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Accounting Officer's Report

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### . Corporate governance (continued)

#### Remuneration

The upper limits of the remuneration of the Executive mayor, councillors and other section 56 and section 57 maangers of the municipality, are determined by the Department of co-operative governance and traditional affairs.

#### Audit committee

| Name                  | Position   | Date of engagement |
|-----------------------|------------|--------------------|
| Mr. A. Singh          | Chairperon | 25-Aug-18          |
| Advocate J.C. Weapond | Member     | 1-May-19           |
| Mrs N.T. Maseko       | Member     | 1-Jan-21           |
| Mr. N. Baloyi         | Member     | 1-Sep-22           |

In terms of Section 166 of the Municipal Finance Management Act, (56 2003), the municipality, must appoint members of the Audit Committee.

#### Internal audit

The municipality has a functional internal audit unit. This is in compliance with the Municipal Finance Management Act, 2003.

#### 8. Bankers

The municipality's banker is First National Bank, a division of First Rand Limited.

#### 9. Auditors

Auditor General South Africa will continue in office for the next financial period.

The annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August, 2023 and were signed on its behalf by:

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**Mr. M.S. Dlamini**  
**Acting Municipal Manager**

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Statement of Financial Position as at 30 June, 2023

| Figures in Rand  | Note(s) | 2023                 | 2022<br>Restated*    |
|--|---------|----------------------|----------------------|
| <b>Assets</b>  |         |                      |                      |
| Current Assets   |         |                      |                      |
| Inventories  | 2       | 25,308,821           | 15,734,999           |
| Other financial assets                                       | 3       | 50,936               | 48,047               |
| Receivables from exchange transactions                       | 4       | 980,151              | 979,390              |
| Receivables from non-exchange transactions                   | 5       | 3,355,760            | 820,060              |
| VAT receivable   | 6       | 24,237,919           | 6,298,093            |
| Consumer debtors   | 7       | 73,341,945           | 75,873,499           |
| Cash and cash equivalents                                    | 8       | 10,992,831           | 4,186,141            |
|  |         | <b>138,268,363</b>   | <b>103,940,229</b>   |
| Non-Current Assets   |         |                      |                      |
| Biological assets that form part of an agricultural activity | 9       | 94,236,526           | 66,854,927           |
| Investment property  | 10      | 13,606,141           | 14,105,404           |
| Property, plant and equipment                                | 11      | 1,771,112,543        | 1,802,060,683        |
| Heritage assets  | 12      | 2,916,300            | 2,916,300            |
| Other financial assets                                       | 3       | 528,292              | 495,360              |
|  |         | <b>1,882,399,802</b> | <b>1,886,432,674</b> |
| <b>Total Assets</b>  |         | <b>2,020,668,165</b> | <b>1,990,372,903</b> |
| <b>Liabilities</b>   |         |                      |                      |
| Current Liabilities  |         |                      |                      |
| Payables from exchange transactions                          | 13      | 828,134,107          | 688,320,711          |
| Consumer deposits  | 14      | 4,108,797            | 4,162,789            |
| Employee benefit obligation                                  | 15      | 901,000              | 877,000              |
| Unspent conditional grants and receipts                      | 16      | 7,317,763            | 7,053,987            |
| Provisions   | 17      | 787,000              | 1,214,000            |
|  |         | <b>841,248,667</b>   | <b>701,628,487</b>   |
| Non-Current Liabilities                                      |         |                      |                      |
| Employee benefit obligation                                  | 15      | 8,534,000            | 9,975,000            |
| Provisions   | 17      | 42,155,422           | 40,321,782           |
|  |         | <b>50,689,422</b>    | <b>50,296,782</b>    |
| <b>Total Liabilities</b>                                     |         | <b>891,938,089</b>   | <b>751,925,269</b>   |
| <b>Net Assets</b>  |         | <b>1,128,730,076</b> | <b>1,238,447,634</b> |
| Accumulated surplus  |         | 1,128,730,088        | 1,238,447,627        |
| <b>Total Net Assets</b>                                      |         | <b>1,128,730,088</b> | <b>1,238,447,627</b> |

\* See Note 52 & 51

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Statement of Financial Performance

| Figures in Rand                                     | Note(s) | 2023                 | 2022<br>Restated*    |
|---|---------|----------------------|----------------------|
| <b>Revenue</b>                                      |         |                      |                      |
| <b>Revenue from exchange transactions</b>           |         |                      |                      |
| Service charges                                     | 19      | 202,821,684          | 213,892,459          |
| Construction contracts                              | 44      | 9,930,435            | -                    |
| Rental of facilities and equipment                  | 20      | 1,114,395            | 1,158,264            |
| Licences and permits                                | 21      | 190,575              | 152,109              |
| Other income  | 22      | 2,069,884            | 2,419,042            |
| Interest received                                   | 23      | 37,130,763           | 32,364,877           |
| Fair value adjustments                              | 42      | 27,416,300           | 6,271,273            |
| Actuarial gains                                     |         | 2,407,000            | 4,855,000            |
| Inventories reversal                                |         | -                    | 671,092              |
| <b>Total revenue from exchange transactions</b>     |         | <b>283,081,036</b>   | <b>261,784,116</b>   |
| <b>Revenue from non-exchange transactions</b>       |         |                      |                      |
| <b>Taxation revenue</b>                             |         |                      |                      |
| Property rates                                      | 24      | 80,030,574           | 74,503,637           |
| Interest - Taxation revenue                         | 45      | 11,746,198           | -                    |
| <b>Transfer revenue</b>                             |         |                      |                      |
| Government grants & subsidies                       | 25      | 427,622,494          | 464,452,868          |
| Public contributions and donations                  | 26      | 1,500,000            | 5,963,500            |
| Fines, Penalties and Forfeits                       | 27      | 6,143,639            | 6,093,863            |
| <b>Total revenue from non-exchange transactions</b> |         | <b>527,042,905</b>   | <b>551,013,868</b>   |
| <b>Total revenue</b>                                | 18      | <b>810,123,941</b>   | <b>812,797,984</b>   |
| <b>Expenditure</b>                                  |         |                      |                      |
| Employee related costs                              | 28      | (237,317,467)        | (233,047,563)        |
| Remuneration of councillors                         | 29      | (15,831,642)         | (15,452,977)         |
| Depreciation and amortisation                       | 30      | (86,012,024)         | (91,814,544)         |
| Impairment loss                                     | 31      | (34,371,168)         | (10,164,474)         |
| Finance costs                                       | 32      | (54,643,814)         | (33,775,415)         |
| Lease rentals on operating lease                    | 33      | (301,454)            | (798,395)            |
| Debt Impairment                                     | 34      | (106,043,927)        | (59,037,631)         |
| Bad debts written off                               |         | (350,601)            | (357,142)            |
| Bulk purchases                                      | 35      | (146,655,499)        | (161,505,763)        |
| Contracted services                                 | 36      | (102,262,606)        | (90,743,885)         |
| Transfers and Subsidies                             | 37      | (9,612,340)          | (7,217,305)          |
| Loss on disposal of assets and liabilities          |         | (7,370,688)          | (19,894,998)         |
| Inventories losses/write-downs                      |         | (6,393,884)          | -                    |
| General Expenses                                    | 40      | (112,674,378)        | (124,579,731)        |
| <b>Total expenditure</b>                            |         | <b>(919,841,492)</b> | <b>(848,389,823)</b> |
| <b>(Deficit)/surplus for the year</b>               |         | <b>(109,717,551)</b> | <b>(35,591,839)</b>  |

\* See Note 52 & 51

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Statement of Changes in Net Assets

| Figures in Rand                                       | Accumulated surplus / deficit | Total net assets     |
|---|-------------------------------|----------------------|
| Opening balance as previously reported                | 1,218,509,256                 | 1,218,509,256        |
| Adjustments   |                               |                      |
| Prior year adjustments 52                             | 55,530,210                    | 55,530,210           |
| <b>Balance at 1 July, 2021 as restated*</b>           | <b>1,274,039,466</b>          | <b>1,274,039,466</b> |
| Changes in net assets                                 |                               |                      |
| Deficit for the year                                  | (35,591,839)                  | (35,591,839)         |
| Total changes   | (35,591,839)                  | (35,591,839)         |
| Opening balance as previously reported                | 1,186,880,174                 | 1,186,880,174        |
| Adjustments   |                               |                      |
| Prior year adjustments 52                             | 51,567,465                    | 51,567,465           |
| <b>Restated* Balance at 1 July, 2022 as restated*</b> | <b>1,238,447,639</b>          | <b>1,238,447,639</b> |
| Changes in net assets                                 |                               |                      |
| Surplus for the year                                  | (109,717,551)                 | (109,717,551)        |
| Total changes   | (109,717,551)                 | (109,717,551)        |
| <b>Balance at 30 June, 2023</b>                       | <b>1,128,730,088</b>          | <b>1,128,730,088</b> |

\* See Note 52 & 51

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Cash Flow Statement

| Figures in Rand   | Note(s)   | 2023                 | 2022<br>Restated*    |
|---|-----------|----------------------|----------------------|
| <b>Cash flows from operating activities</b>                 |           |                      |                      |
| <b>Receipts</b>   |           |                      |                      |
| Taxation  |           | 52,280,737           | 50,810,420           |
| Sale of goods and services                                  |           | 180,308,835          | 170,991,727          |
| Grants  |           | 429,386,270          | 448,247,900          |
| Interest income   |           | 1,261,526            | 256,161              |
|   |           | <b>663,237,368</b>   | <b>670,306,208</b>   |
| <b>Payments</b>   |           |                      |                      |
| Employee costs  |           | (253,149,109)        | (248,500,539)        |
| Suppliers   |           | (247,633,344)        | (200,675,109)        |
| Finance costs   |           | (54,643,814)         | (33,775,415)         |
|   |           | <b>(555,426,267)</b> | <b>(482,951,063)</b> |
| <b>Net cash flows from operating activities</b>             | <b>46</b> | <b>107,811,101</b>   | <b>187,355,145</b>   |
| <b>Cash flows from investing activities</b>                 |           |                      |                      |
| Purchase of property, plant and equipment                   | 11        | (102,191,575)        | (189,368,494)        |
| Proceeds from sale of property, plant and equipment         | 11        | 1,188,284            | 830,085              |
| Purchase of heritage assets                                 | 12        | -                    | (56,300)             |
| Purchase of financial assets                                |           | (1,120)              | (1,582)              |
| <b>Net cash flows from investing activities</b>             |           | <b>(101,004,411)</b> | <b>(188,596,291)</b> |
| <b>Cash flows from financing activities</b>                 |           |                      |                      |
| Finance lease payments                                      |           | -                    | (2,310,714)          |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |           | <b>6,806,690</b>     | <b>(3,551,860)</b>   |
| Cash and cash equivalents at the beginning of the year      |           | 4,186,141            | 7,738,001            |
| <b>Cash and cash equivalents at the end of the year</b>     | <b>8</b>  | <b>10,992,831</b>    | <b>4,186,141</b>     |

The accounting policies on pages 18 to 46 and the notes on pages 47 to 105 form an integral part of the annual financial statements.

\* See Note 52 & 51

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

|   | Approved budget      | Adjustments         | Final Budget         | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|----------------------|---------------------|----------------------|------------------------------------|--|-----------|
| Figures in Rand                                     |                      |                     |                      |                                    |  |           |
| <b>Statement of Financial Performance</b>           |                      |                     |                      |                                    |  |           |
| <b>Revenue</b>                                      |                      |                     |                      |                                    |  |           |
| <b>Revenue from exchange transactions</b>           |                      |                     |                      |                                    |  |           |
| Service charges                                     | 237,777,953          | 6,487,236           | <b>244,265,189</b>   | 202,821,684                        | <b>(41,443,505)</b>                        | Ref 1     |
| Construction contracts                              | -                    | -                   | -                    | 9,930,435                          | <b>9,930,435</b>                           | Ref 26    |
| Rental of facilities and equipment                  | 788,771              | 376,373             | <b>1,165,144</b>     | 1,114,395                          | <b>(50,749)</b>                            | Ref 2     |
| Licences and permits                                | 89,238               | 197                 | <b>89,435</b>        | 190,575                            | <b>101,140</b>                             | Ref 3     |
| Other income - (rollup)                             | 2,169,088            | (482,176)           | <b>1,686,912</b>     | 2,069,884                          | <b>382,972</b>                             | Ref 4     |
| Interest received - investment                      | 23,565,863           | 13,403,097          | <b>36,968,960</b>    | 37,130,763                         | <b>161,803</b>                             | Ref 5     |
| <b>Total revenue from exchange transactions</b>     | <b>264,390,913</b>   | <b>19,784,727</b>   | <b>284,175,640</b>   | <b>253,257,736</b>                 | <b>(30,917,904)</b>                        |           |
| <b>Revenue from non-exchange transactions</b>       |                      |                     |                      |                                    |  |           |
| <b>Taxation revenue</b>                             |                      |                     |                      |                                    |  |           |
| Property rates                                      | 78,642,718           | 12,017,353          | <b>90,660,071</b>    | 80,030,574                         | <b>(10,629,497)</b>                        | Ref 6     |
| Interest, Dividends and Rent on Land                | -                    | -                   | -                    | -                                  | -  |           |
| Interest - Taxation revenue                         | 7,055,253            | 3,787,483           | <b>10,842,736</b>    | 11,746,198                         | <b>903,462</b>                             | Ref 7     |
| <b>Transfer revenue</b>                             |                      |                     |                      |                                    |  |           |
| Government grants & subsidies                       | 465,974,000          | (20,000,000)        | <b>445,974,000</b>   | 427,622,494                        | <b>(18,351,506)</b>                        | 8         |
| Public contributions and donations                  | -                    | -                   | -                    | 1,500,000                          | <b>1,500,000</b>                           | 9         |
| Fines, Penalties and Forfeits                       | 10,604,057           | (5,103,160)         | <b>5,500,897</b>     | 6,143,639                          | <b>642,742</b>                             | 10        |
| <b>Total revenue from non-exchange transactions</b> | <b>562,276,028</b>   | <b>(9,298,324)</b>  | <b>552,977,704</b>   | <b>527,042,905</b>                 | <b>(25,934,799)</b>                        |           |
| <b>Total revenue</b>                                | <b>826,666,941</b>   | <b>10,486,403</b>   | <b>837,153,344</b>   | <b>780,300,641</b>                 | <b>(56,852,703)</b>                        |           |
| <b>Expenditure</b>                                  |                      |                     |                      |                                    |  |           |
| Personnel   | (245,674,907)        | 519,980             | <b>(245,154,927)</b> | (237,317,467)                      | <b>7,837,460</b>                           | 11        |
| Remuneration of councillors                         | (17,399,566)         | 2,326,279           | <b>(15,073,287)</b>  | (15,831,642)                       | <b>(758,355)</b>                           | 12        |
| Depreciation and amortisation                       | (63,017,553)         | -                   | <b>(63,017,553)</b>  | (86,012,024)                       | <b>(22,994,471)</b>                        | 13        |
| Impairment loss/ Reversal of impairments            | -                    | -                   | -                    | (34,371,168)                       | <b>(34,371,168)</b>                        | 13        |
| Finance costs                                       | (14,519,401)         | (13,183,650)        | <b>(27,703,051)</b>  | (54,643,814)                       | <b>(26,940,763)</b>                        | 14        |
| Lease rentals on operating lease                    | -                    | (300,710)           | <b>(300,710)</b>     | (301,454)                          | <b>(744)</b>                               | 15        |
| Debt Impairment                                     | (67,212,925)         | -                   | <b>(67,212,925)</b>  | (106,043,927)                      | <b>(38,831,002)</b>                        | 16        |
| Bad debts written off                               | (528,431)            | -                   | <b>(528,431)</b>     | (350,601)                          | <b>177,830</b>                             | 17        |
| Bulk purchases                                      | (169,407,992)        | -                   | <b>(169,407,992)</b> | (146,655,499)                      | <b>22,752,493</b>                          | 18        |
| Contracted Services                                 | (50,612,844)         | (15,085,688)        | <b>(65,698,532)</b>  | (102,262,606)                      | <b>(36,564,074)</b>                        | 19        |
| Transfers and Subsidies                             | (1,464,854)          | (6,892,200)         | <b>(8,357,054)</b>   | (9,612,340)                        | <b>(1,255,286)</b>                         | 20        |
| General Expenses                                    | (49,039,913)         | (47,232,282)        | <b>(96,272,195)</b>  | (112,674,378)                      | <b>(16,402,183)</b>                        | 21        |
| <b>Total expenditure</b>                            | <b>(678,878,386)</b> | <b>(79,848,271)</b> | <b>(758,726,657)</b> | <b>(906,076,920)</b>               | <b>(147,350,263)</b>                       |           |
| <b>Operating deficit</b>                            | <b>147,788,555</b>   | <b>(69,361,868)</b> | <b>78,426,687</b>    | <b>(125,776,279)</b>               | <b>(204,202,966)</b>                       |           |
| Loss on disposal of assets and liabilities          | -                    | 870,088             | <b>870,088</b>       | (7,370,688)                        | <b>(8,240,776)</b>                         | 22        |
| Fair value adjustments                              | -                    | -                   | -                    | 27,416,300                         | <b>27,416,300</b>                          | 23        |

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

|  | Approved budget    | Adjustments         | Final Budget      | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--|--------------------|---------------------|-------------------|------------------------------------|--|-----------|
| Figures in Rand  |                    |                     |                   |                                    |  |           |
| Actuarial gains/losses   | -                  | -                   | -                 | 2,407,000                          | <b>2,407,000</b>                           | 24        |
| Inventories losses/write-downs   | -                  | -                   | -                 | (6,393,884)                        | <b>(6,393,884)</b>                         | 25        |
|  | -                  | <b>870,088</b>      | <b>870,088</b>    | <b>16,058,728</b>                  | <b>15,188,640</b>                          |           |
| <b>Deficit before taxation</b>   | <b>147,788,555</b> | <b>(68,491,780)</b> | <b>79,296,775</b> | <b>(109,717,551)</b>               | <b>(189,014,326)</b>                       |           |
| <b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b> | <b>147,788,555</b> | <b>(68,491,780)</b> | <b>79,296,775</b> | <b>(109,717,551)</b>               | <b>(189,014,326)</b>                       |           |

Reconciliation

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

|  | Approved budget      | Adjustments          | Final Budget         | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--|----------------------|----------------------|----------------------|------------------------------------|--|-----------|
| Figures in Rand  |                      |                      |                      |                                    |  |           |
| <b>Statement of Financial Position</b>                       |                      |                      |                      |                                    |  |           |
| <b>Assets</b>  |                      |                      |                      |                                    |  |           |
| <b>Current Assets</b>  |                      |                      |                      |                                    |  |           |
| Inventories  | 26,939,638           | (1,193,251)          | <b>25,746,387</b>    | 25,308,821                         | <b>(437,566)</b>                           | 1         |
| Other financial assets                                       | 46,465               | -                    | <b>46,465</b>        | 50,936                             | <b>4,471</b>                               | 2         |
| Receivables from exchange transactions                       | -                    | 797,883              | <b>797,883</b>       | 980,151                            | <b>182,268</b>                             | 3         |
| Receivables from non-exchange transactions                   | 1,911,147            | -                    | <b>1,911,147</b>     | 3,355,760                          | <b>1,444,613</b>                           | 4         |
| VAT receivable   | 265,676,259          | (24,460,883)         | <b>241,215,376</b>   | 186,729,192                        | <b>(54,486,184)</b>                        | 5         |
| Consumer debtors   | 139,013,000          | 19,987,000           | <b>159,000,000</b>   | 73,341,945                         | <b>(85,658,055)</b>                        | 6         |
| Cash and cash equivalents                                    | 35,033,185           | (9,901,000)          | <b>25,132,185</b>    | 10,992,831                         | <b>(14,139,354)</b>                        | 7         |
|  | <b>468,619,694</b>   | <b>(14,770,251)</b>  | <b>453,849,443</b>   | <b>300,759,636</b>                 | <b>(153,089,807)</b>                       |           |
| <b>Non-Current Assets</b>                                    |                      |                      |                      |                                    |  |           |
| Biological assets that form part of an agricultural activity | 60,597,062           | 6,257,865            | <b>66,854,927</b>    | 94,236,526                         | <b>27,381,599</b>                          | 8         |
| Investment property  | 13,334,087           | 129,616              | <b>13,463,703</b>    | 13,606,141                         | <b>142,438</b>                             | 9         |
| Property, plant and equipment                                | 1,949,377,641        | (144,346,000)        | <b>1,805,031,641</b> | 1,771,112,543                      | <b>(33,919,098)</b>                        | 10        |
| Heritage assets  | -                    | 2,916,300            | <b>2,916,300</b>     | 2,916,300                          | -  | 11        |
| Other financial assets                                       | 483,205              | 12,155               | <b>495,360</b>       | 528,292                            | <b>32,932</b>                              | 12        |
| Long Term Receivables  | 15,560               | (15,560)             | -                    | -                                  | -  |           |
|  | <b>2,023,807,555</b> | <b>(135,045,624)</b> | <b>1,888,761,931</b> | <b>1,882,399,802</b>               | <b>(6,362,129)</b>                         |           |
| <b>Total Assets</b>  | <b>2,492,427,249</b> | <b>(149,815,875)</b> | <b>2,342,611,374</b> | <b>2,183,159,438</b>               | <b>(159,451,936)</b>                       |           |
| <b>Liabilities</b>   |                      |                      |                      |                                    |  |           |
| <b>Current Liabilities</b>                                   |                      |                      |                      |                                    |  |           |
| Payables from exchange transactions                          | 185,162,246          | 583,702,689          | <b>768,864,935</b>   | 828,134,107                        | <b>59,269,172</b>                          | 13        |
| VAT payable  | 13,518,527           | 238,214,311          | <b>251,732,838</b>   | 162,491,273                        | <b>(89,241,565)</b>                        | 14        |
| Consumer deposits  | 4,279,334            | 45,534               | <b>4,324,868</b>     | 4,108,797                          | <b>(216,071)</b>                           | 15        |
| Employee benefit obligation                                  | -                    | -                    | -                    | 901,000                            | <b>901,000</b>                             | 16        |
| Unspent conditional grants and receipts                      | -                    | 7,053,987            | <b>7,053,987</b>     | 7,317,763                          | <b>263,776</b>                             | 17        |
| Provisions   | 3,432,000            | (1,218,000)          | <b>2,214,000</b>     | 787,000                            | <b>(1,427,000)</b>                         | 18        |
|  | <b>206,392,107</b>   | <b>827,798,521</b>   | <b>1,034,190,628</b> | <b>1,003,739,940</b>               | <b>(30,450,688)</b>                        |           |
| <b>Non-Current Liabilities</b>                               |                      |                      |                      |                                    |  |           |
| Employee benefit obligation                                  | 21,504,530           | (11,529,530)         | <b>9,975,000</b>     | 8,534,000                          | <b>(1,441,000)</b>                         | Ref 19    |
| Provisions   | 29,403,547           | 9,918,234            | <b>39,321,781</b>    | 42,155,422                         | <b>2,833,641</b>                           | Ref 20    |
|  | <b>50,908,077</b>    | <b>(1,611,296)</b>   | <b>49,296,781</b>    | <b>50,689,422</b>                  | <b>1,392,641</b>                           |           |
| <b>Total Liabilities</b>                                     | <b>257,300,184</b>   | <b>826,187,225</b>   | <b>1,083,487,409</b> | <b>1,054,429,362</b>               | <b>(29,058,047)</b>                        |           |
| <b>Net Assets</b>  | <b>2,235,127,065</b> | <b>(976,003,100)</b> | <b>1,259,123,965</b> | <b>1,128,730,076</b>               | <b>(130,393,889)</b>                       |           |

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

|  | Approved budget | Adjustments   | Final Budget         | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--|-----------------|---------------|----------------------|------------------------------------|--|-----------|
| Figures in Rand  |                 |               |                      |                                    |  |           |
| <b>Net Assets</b>  |                 |               |                      |                                    |  |           |
| <b>Net Assets Attributable to Owners of Controlling Entity</b> |                 |               |                      |                                    |  |           |
| <b>Reserves</b>  |                 |               |                      |                                    |  |           |
| Accumulated surplus  | 2,235,127,065   | (976,003,100) | <b>1,259,123,965</b> | 1,128,730,088                      | <b>(130,393,877)</b>                       |           |

Notes to the Statement of Comparison of Budget and Actual Performance

### Statement of Financial Performance

- Service charges:** The variance is 17% percent below budget. This is due to loadshedding leading to the consumption of electricity dropping.
- Rental of facilities and equipment:** The minor variance is due to the fact that some properties were vacant for a certain period of time during this period.
- Licenses and permits:** The variance is due to the continued inspection of businesses hawkers to ensure that they all have business licences and permits.
- Other income:** The variance is a result of the fact that items such as connections and disconnections were not budgeted for.
- Interest received- outstanding debtors:** The variance is considered to be within acceptable range.
- Property rates:** The variance is due to the fact that the budgeted amount was derived from tariffs which were yet to be approved by council and those tariffs were then amended.
- Interest, Dividends and Rent on Land:** The variance is considered to be within acceptable range.
- Government grants & subsidies:** The variance is considered to be within acceptable range.
- Donations:** The variance is a result of donations which were not budgeted for. Boreholes were installed and donated by Gert Sibande.
- Fines, Penalties and Forfeits:** The variance is a result of illegal connection penalties which were not budgeted for.
- Employee related cost:** The variance is considered to be within an acceptable range.
- Remuneration of councillors:** The variance is considered to be within an acceptable range.
- Depreciation and amortisation:** The variance is caused by the impairment of assets which was not budgeted for.
- Finance costs:** The variance is caused by interest charged by Eskom which has more than doubled.
- Lease rentals on operating lease:** There is no variance.
- Debt impairment:** The variance is a result of slow payment from consumers for the period.
- Bad debts written off:** The variance is due to the fact the municipality had budgeted for more debtors to be written off yet at the end of the period, fewer debtors had been written off.
- Bulk purchases:** The variance is a result of the expenditure for bulk water has been accounted for under water inventory instead of bulk purchases.
- Contracted Services:** The variance is a result of increased expenditure for security services in an effort to curb theft and violence towards municipal properties and executive officials.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

|  | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference   |
|--|-----------------|-------------|--------------|------------------------------------|--|---|
| Figures in Rand                        |                 |             |              |                                    |  |   |
| <b>20. Transfers and Subsidies:</b>    |                 |             |              |                                    |  | The variance is due to less budgeting by the municipality while more allocation was made by treasury.   |
| <b>21. General Expenses:</b>           |                 |             |              |                                    |  | The variance is a result of wet fuel which was over budget due to loadshedding and therefore the increased use of generators  |
| <b>22. Loss on disposal of assets:</b> |                 |             |              |                                    |  | The municipality did not budget for any loss on disposal of assets.   |
| <b>23. Fair value adjustments:</b>     |                 |             |              |                                    |  | The municipality did not budget for any fair value gain.  |
| <b>24. Actuarial gains:</b>            |                 |             |              |                                    |  | The municipality did not budget for any gains/ losses.  |
| <b>25. Inventory losses:</b>           |                 |             |              |                                    |  | The municipality did not budget for any inventory losses.   |
| <b>26. Construction contracts:</b>     |                 |             |              |                                    |  | Revenue from construction contracts was not budgeted for under the line item. The revenue was budgeted under non exchange revenue fro government grants under INEP. |

### Statement of Financial Position

- 1. Inventories:** The variance is considered to be within an acceptable range.
- 2. Other financial assets:** The variance is considered to be within an acceptable range.
- 3. Receivables from exchange transactions:** The variance is 22.8% above budget. There had been less payments than expected.
- 4. Receivables from non-exchange transactions:** The variance is 75.58% above budget. This is due to non performance of traffic fines.
- 5. VAT Receivable:** The variance is 27% below budget. The Municipality had a cut-off on procurement earlier than anticipated and hence the reduction in VAT Input.
- 6. Consumer debtors:** The variance is 53.87% below budget and this is as a result of high impairment due to slow payment of consumers.
- 7. Cash and cash equivalents:** The variance is 56.26% below budget and due to non performance of the debt book.
- 8. Biological assets:** The variance is 40.96% above budget and is due to increase in fair valuation of the plantations.
- 9. Investment property:** The variance is within an acceptable range.
- 10. Property, plant and equipment:** The variance is 1.25% of the below budget and this is due to increased impairment of the assets.
- 11. Heritage Assets:** There is no variance recorded.
- 12. Other financial assets:** The variance is 6.64% which is within an acceptable range.
- 13. Trade and other payables:** The variance is 7.7% above budget and this is due to Eskom payments which are way behind the payment schedule.
- 14. VAT Payable:** The variance is 36% below budget. This is due to non performance of the debt book.
- 15. Consumer deposits:** The variance is 4.99% below budget and is within an acceptable range.
- 16. Employee benefit obligation:** The amount has been budgeted for under Provisions.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

|  | Approved<br>budget | Adjustments | Final Budget | Actual amounts<br>on comparable<br>basis | Difference<br>between final<br>budget and<br>actual | Reference |
|--|--------------------|-------------|--------------|--|---|-----------|
|--|--------------------|-------------|--------------|--|---|-----------|

Figures in Rand

- 17. Unspent conditional grants and receipts:** The variance is 3.74% and is considered to be within acceptable range.
- 18. Provisions:** The variance is 64.45% below budget. This is because the budget includes Employee benefits which has been reported separately.
- 19. Employee benefit obligation - Non Current:** The variance is 14% below budget. This is because the employee benefits are split between current and non-current whilst the budget is under long term.
- 20. Provisions:** The variance is 7.2% above budget which is considered to be within acceptable range.

# **Mkhondo Local Municipality**

Annual Financial Statements for the year ended 30 June, 2023

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Accounting Policies

| Figures in Rand | Note(s) | 2023 | 2022 |
|-----------------|---------|------|------|
|-----------------|---------|------|------|

### 1. Significant account policies

The principal accounting policies applied in the preparation of these annual financial statements are set out below.

#### 1.1 Basis of preparations

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

These accounting policies are consistent with the previous period.

#### 1.2 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### 1.3 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### 1.4 Materiality

Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

#### 1.5 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Other significant judgements, sources of estimation uncertainty and/or relating information, have been disclosed in the relating notes.

#### Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Accounting Policies

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### 1.5 Significant judgements and sources of estimation uncertainty (continued)

#### Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

#### Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

The carrying amount of available-for-sale financial assets would be an estimated - lower or - higher were the discounted rate used in the discount cash flow analysis to differ by 10% from management's estimates.

#### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

#### Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Accounting Policies

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### 1.5 Significant judgements and sources of estimation uncertainty (continued)

#### Post-retirement benefits

The present value of the post-retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post-retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 15.

#### Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

#### Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Accounting Policies

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### 1.5 Significant judgements and sources of estimation uncertainty (continued)

#### Accounting by principals and agent

The municipality makes assessments on whether it is the principal or agent in principal-agent relationships. The municipality makes assessments on whether it is the principal or agent in principal-agent relationships.

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal). Identifying whether an entity is a principal or an agent

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether a municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

#### Binding arrangement

The municipality assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

#### Assessing which entity benefits from the transactions with third parties

When the municipality in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the municipality concludes that it is not the agent, then it is the principal in the transactions.

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

It does not have the power to determine the significant terms and conditions of the transaction.

It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.

It is not exposed to variability in the results of the transaction. Additional information is disclosed in Note 63.

#### Impairment of statutory receivables

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures and impairment loss. The impairment loss is measured as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, are reduced, either directly or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

In estimating the future cash flows, the municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the municipality discounts the estimated future cash flows using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable are revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Accounting Policies

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### 1.6 Biological assets that form part of an agricultural activity

The entity recognises biological assets that form part of an agricultural activity or agricultural produce when, and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets that form part of an agricultural activity are measured at their fair value less costs to sell.

The fair value of the plantations is based on the combined fair value of the land and the trees. The fair value of the raw land and land improvements is then deducted from the combined fair value to determine the fair value of the trees.

A gain or loss arising on initial recognition of biological assets that form part of an agricultural activity or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of biological assets that form part of an agricultural activity is included in surplus or deficit for the period in which it arises.

### 1.7 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

| Item                 | Useful life |
|----------------------|-------------|
| Property - land      | indefinite  |
| Property - buildings | 50 years    |

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

### 1.8 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

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### 1.8 Site restoration and dismantling cost (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for X,X and X which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

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| Item  | Depreciation method | Average useful life |
|---|---------------------|---------------------|
| Land  | Straight-line       | Indefinite          |
| Land and buildings - Community Facilities     | Straight-line       | 15-100 years        |
| Land and buildings - Servitudes               | Straight-line       | 0                   |
| Land and Buildings - Fire/Ambulance stations  | Straight-line       | 5-100 years         |
| Land and buildings - Municipal offices        | Straight-line       | 5-100 years         |
| Land and buildings - Workshops/depots/yards   | Straight-line       | 5 -100 years        |
| Land and buildings - Outdoor sport facilities | Straight-line       | 15 -50 years        |
| Land and buildings - Staff housing            | Straight-line       | 15 - 100 years      |

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### 1.8 Site restoration and dismantling cost (continued)

|   |               |                 |
|---|---------------|-----------------|
| Water Supply network - Storm water network              | Straight-line | 20-50 years     |
| Water Supply network- Bulk mains                        | Straight-line | 40- 80 years    |
| Water Supply network - Dams and Weirs                   | Straight-line | 15 - 50 years   |
| Water supply network - DistributionCommunity            | Straight-line | 80 years        |
| Water supply network - Distribution points              | Straight-line | 15-20 years     |
| Water Supply network - Pumpstations                     | Straight-line | 5-100 years     |
| Water Supply network - Reservoirs and towers            | Straight-line | 7-100 years     |
| Water supply networks- Water Treatment works            | Straight-line | 5-100 years     |
| Electricity Networks- LV Network (<1000V)               | Straight-line | 20 years        |
| Electricity networks- MV Network (<=33 kv)              | Straight-line | 45 years        |
| Work in progress  | Straight-line | not depreciated |
| Road networks - Roads                                   | Straight-line | 5 - 100 years   |
| Road Networks - Roadside assets                         | Straight-line | 10-50 years     |
| Sanitation Networks - Boreholes                         | Straight-line | 15-50 years     |
| Sanitation networks - Outfall sewers                    | Straight-line | 80 years        |
| Sanitation network - Reservoirs & towers                | Straight-line | 15 - 50 years   |
| Sanitation network - Reticulation                       | Straight-line | 80 years        |
| Sanitation network - Sewer Pump stations                | Straight-line | 10- 100 years   |
| Sanitation network - Waste Water Treatment Works (WWTW) | Straight-line | 5 - 100 years   |
| Road bridges  | Straight-line | 50 years        |
| Plant and machinery                                     | Straight-line | 2-15 years      |
| Furniture and fixtures                                  | Straight-line | 2-15 years      |
| Office equipment  | Straight-line | 2-15 years      |
| Transport assets  | Straight-line | 3-15 years      |
| Computer equipment                                      | Straight-line | 3 years         |
| Landfill site Assets                                    | Straight-line | 4 years         |

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

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## Accounting Policies

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### 1.9 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

### 1.10 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

#### Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

#### Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

# Mkhondo Local Municipality

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## Accounting Policies

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### 1.10 Separate financial statements (continued)

#### Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

#### Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

#### Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

### 1.11 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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## Accounting Policies

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### 1.11 Financial instruments (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unutilised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;

# Mkhondo Local Municipality

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## Accounting Policies

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### 1.11 Financial instruments (continued)

- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

#### Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| <b>Class</b>                               | <b>Category</b>                            |
|--|--|
| Investments                                | Financial asset measured at amortised cost |
| Receivables from exchange transactions     | Financial asset measured at amortised cost |
| Receivables from non exchange transactions | Financial asset measured at amortised cost |
| Consumer debtors                           | Financial asset measured at amortised cost |
| Cash and cash equivalents                  | Financial asset measured at amortised cost |
| Other financial assets                     | Financial asset measured at fair value     |

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| <b>Class</b>                        | <b>Category</b>                                |
|-------------------------------------|--|
| Payables from exchange transactions | Financial liability measured at amortised cost |
| Consumer deposits                   | Financial liability measured at amortised cost |

#### Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

# Mkhondo Local Municipality

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## Accounting Policies

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### 1.11 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

#### Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

### 1.12 Statutory receivables

#### Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

# Mkhondo Local Municipality

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### 1.12 Statutory receivables (continued)

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

#### Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

#### Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

#### Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

#### Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

#### Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

#### Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

# Mkhondo Local Municipality

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## Accounting Policies

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### 1.12 Statutory receivables (continued)

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses is recognised in surplus or deficit.

In estimating the future cash flows, a municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk-free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

### Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
  - derecognise the receivable; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

### 1.13 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Accounting Policies

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### 1.13 Inventories (continued)

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.14 Construction contracts and receivables

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contractor is an entity that performs construction work pursuant to a construction contract.

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term "contractor" thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The entity assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, an entity considers whether it is a contractor.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

### 1.15 Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Cash and cash equivalents comprise bank balances, cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less which are available on demand.

Some equity investments are included in cash equivalents when they are, in substance, cash equivalents.

Bank overdrafts which are repayable on demand forms an integral part of the entity's cash management activities, and as such are included as a component of cash and cash equivalents.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Accounting Policies

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### 1.16 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

### 1.17 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Accounting Policies

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### 1.17 Employee benefits (continued)

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognises the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

#### Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Accounting Policies

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### 1.17 Employee benefits (continued)

#### Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Accounting Policies

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### 1.17 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Accounting Policies

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### 1.17 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Accounting Policies

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### 1.17 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

### 1.18 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Accounting Policies

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### 1.18 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 49.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Accounting Policies

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### 1.18 Provisions and contingencies (continued)

#### Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy and 1.16.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### 1.19 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Accounting Policies

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### 1.20 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

The amount of revenue arising on a transaction which is statutory (non-contractual) in nature is usually measured by reference to the relevant legislation, regulation or similar means. The fee structure, tariffs or calculation basis specified in legislation, regulation or similar means is used to determine the amount of revenue that should be recognised. This amount represents the fair value, on initial measurement, of the consideration received or receivable for revenue that arises from a statutory (non-contractual) arrangement (see the accounting policy on Statutory Receivables).

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight-line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

#### Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Accounting Policies

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### 1.20 Employee benefits (continued)

Interest is recognised using the effective interest rate method for financial instruments, and using the nominal interest rate method for statutory receivables. Interest levied on transactions arising from exchange or non-exchange transactions is classified based on the nature of the underlying transaction.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Accounting Policies

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### 1.21 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Accounting Policies

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### 1.21 Revenue from non-exchange transactions (continued)

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Receivables that arise from statutory (non-contractual) arrangements are initially measured in accordance with this accounting policy, as well as the accounting policy on Statutory Receivables. The entity applies the accounting policy on Statutory Receivables for the subsequent measurement, derecognition, presentation and disclosure of statutory receivables.

Interest is recognised using the effective interest rate method for financial instruments, and using the nominal interest rate method for statutory receivables. Interest levied on transactions arising from exchange or non-exchange transactions is classified based on the nature of the underlying transaction.

### Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Taxation revenue are not grossed up for the amount of tax expenditures.

### Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

### Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Accounting Policies

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### 1.21 Revenue from non-exchange transactions (continued)

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

### 1.22 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.23 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.24 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.25 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

Unauthorised expenditure is accounted for in line with all relating requirements, including, but not limited to, ruling Legislation, Regulations, Frameworks, Circulars, Instruction Notes, Practice Notes, Guidelines etc (as applicable).

### 1.26 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

Fruitless and wasteful expenditure is accounted for in line with all relating requirements, including, but not limited to, ruling Legislation, Regulations, Frameworks, Circulars, Instruction Notes, Practice Notes, Guidelines etc (as applicable).

### 1.27 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy.

Irregular expenditure is accounted for in line with all relating requirements, including, but not limited to, ruling Legislation, Regulations, Frameworks, Circulars, Instruction Notes, Practice Notes, Guidelines etc (as applicable).

### 1.28 Segment information

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

### 1.29 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Accounting Policies

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### 1.29 Budget information (continued)

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01-Jul-12 to 30-Jun-13.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### 1.30 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

### 1.31 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

| Figures in Rand  | 2023              | 2022              |
|--|-------------------|-------------------|
| <b>2. Inventories</b>  |                   |                   |
| Consumable stores  | 25,095,879        | 15,050,939        |
| Water for distribution   | 212,942           | 684,060           |
|  | <b>25,308,821</b> | <b>15,734,999</b> |
| Inventories recognised as an expense during the year   | 60,359,325        | 63,782,164        |
| <b>Inventory pledged as security</b>   |                   |                   |
| There was no inventory pledged as security.  |                   |                   |
| <b>3. Other financial assets</b>   |                   |                   |
| <b>Designated at fair value</b>  |                   |                   |
| Other financial asset 1  | 528,292           | 495,360           |
| Listed Shares - Old Mutual: 13093141   |                   |                   |
| This is an Old Mutual Wealth wrapped investment. The account was opened on 25 June 2002 with an initial investment amount of R3 539 868. |                   |                   |
| <b>At amortised cost</b>   |                   |                   |
| Other financial assets 1   | 50,936            | 48,047            |
| ABSA Fixed Term deposit  |                   |                   |
| This is a fixed term deposit with interest capitalised every three months.   |                   |                   |
| <b>Total other financial assets</b>  | <b>579,228</b>    | <b>543,407</b>    |
| <b>Non-current assets</b>  |                   |                   |
| Designated at fair value   | 528,292           | 495,360           |
| <b>Current assets</b>  |                   |                   |
| At amortised cost  | 50,936            | 48,047            |
| <b>4. Receivables from exchange transactions</b>   |                   |                   |
| Trade debtors  | 776,531           | 776,531           |
| Deposits   | 93,298            | 93,298            |
| Bank overs/unders  | 110,322           | 109,561           |
|  | <b>980,151</b>    | <b>979,390</b>    |
| <b>5. Receivables from non-exchange transactions</b>   |                   |                   |
| Fines  | 3,355,760         | 820,060           |
| <b>Statutory receivables included in receivables from non-exchange transactions above are as follows:</b>                                |                   |                   |
| Fines  | 3,355,760         | 820,060           |
| <b>Total receivables from non-exchange transactions</b>  | <b>3,355,760</b>  | <b>820,060</b>    |

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

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| Figures in Rand | 2023 | 2022 |
|-----------------|------|------|
|-----------------|------|------|

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### 5. Receivables from non-exchange transactions (continued)

#### Statutory receivables general information

##### Transaction(s) arising from statute

The following statutory receivables are classified and measured in accordance with GRAP 108, and have been classified and measured under an accounting policy that is consistent with the requirements of GRAP 108;

##### -Traffic fines

Traffic fines receivables are statutory receivables and arise from traffic infringements committed and fines issued as a result, in terms of the Criminal Procedure Act, No 501 of 197.

##### Determination of transaction amount

For Traffic Fines Receivables, the transaction amount is levied based on the rates as prescribed by the Road Traffic Offences Act.

##### Interest or other charges levied/charged

No interest is charged on Traffic Fines outstanding.

##### Basis used to assess and test whether a statutory receivable is impaired

On Traffic Fines, impairment is considered on collection rate of the balance as a whole, thereafter discounting is considered in terms of materiality.

##### Discount rate applied to the estimated future cash flows

Interest is calculated using the nominal interest rate as stipulated in the municipal by-laws (Prime plus 1.25%). This rate is also considered an appropriate discount rate.

##### Statutory receivables past due but not impaired

Statutory receivables which are less than 3 months past due are not considered to be impaired. At 30 June, 2023, 3,355,760 (2022: 820,060) were past due but not impaired.

##### Factors the entity considered in assessing statutory receivables past due but not impaired

Receivables are assessed in terms of their respective overall payment percentages. Some debtors are therefore past due, but the balances are still expected to be recoverable based on the payment percentages.

##### Statutory receivables impaired

As of 30 June, 2023, Statutory receivables of 47,420,785 (2022: 44,593,032) were impaired and provided for.

The amount of the provision was 2,827,753 as of 30 June, 2023 (2022: 6,062,254).

##### Reconciliation of provision for impairment for statutory receivables

|                          |                     |                     |
|--------------------------|---------------------|---------------------|
| Opening balance          | (44,593,032)        | (38,530,778)        |
| Provision for impairment | (2,827,753)         | (6,062,254)         |
|                          | <b>(47,420,785)</b> | <b>(44,593,032)</b> |

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##### Receivables from non-exchange transactions pledged as security

There are no receivables from non exchange transactions which had been pledged as security.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

| Figures in Rand  | 2023                 | 2022                 |
|--|----------------------|----------------------|
| <b>6. VAT receivable</b>   |                      |                      |
| VAT  | 24,237,919           | 6,298,093            |
| VAT is recognised on accrual basis. VAT receivable and VAT payable is set off against each other. For purposes of submission VAT returns to SARS, this is based on cash basis. |                      |                      |
| <b>7. Consumer debtors</b>   |                      |                      |
| <b>Gross balances</b>  |                      |                      |
| Rates  | 172,343,124          | 144,593,287          |
| Electricity  | 246,784,567          | 209,612,340          |
| Water  | 165,268,313          | 143,034,080          |
| Sewerage   | 69,262,296           | 60,709,495           |
| Refuse   | 121,119,337          | 105,146,609          |
| Other (specify)  | 21,718,907           | 21,437,898           |
|  | <b>796,496,544</b>   | <b>684,533,709</b>   |
| <b>Less: Allowance for impairment</b>  |                      |                      |
| Rates  | (153,623,429)        | (125,595,357)        |
| Electricity  | (218,059,746)        | (177,490,688)        |
| Water  | (152,719,864)        | (131,344,664)        |
| Sewerage   | (63,740,498)         | (55,585,391)         |
| Refuse   | (113,954,928)        | (98,628,182)         |
| Other (specify)  | (21,056,134)         | (20,015,928)         |
|  | <b>(723,154,599)</b> | <b>(608,660,210)</b> |
| <b>Net balance</b>   |                      |                      |
| Rates  | 18,719,695           | 18,997,930           |
| Electricity  | 28,724,821           | 32,121,652           |
| Water  | 12,548,449           | 11,689,416           |
| Sewerage   | 5,521,798            | 5,124,104            |
| Refuse   | 7,164,409            | 6,518,427            |
| Other (specify)  | 662,773              | 1,421,970            |
|  | <b>73,341,945</b>    | <b>75,873,499</b>    |
| <b>Statutory receivables included in consumer debtors above are as follows:</b>  |                      |                      |
| Property rates   | 18,723,233           | 18,977,930           |
| <b>Financial asset receivables included in consumer debtors above</b>  | <b>54,618,712</b>    | <b>56,895,569</b>    |
| <b>Total consumer debtors</b>  | <b>73,341,945</b>    | <b>75,873,499</b>    |
| <b>Included in above is receivables from exchange transactions</b>   |                      |                      |
| Electricity  | 28,724,821           | 32,121,652           |
| Water  | 12,548,449           | 11,689,416           |
| Sewerage   | 5,521,798            | 5,124,104            |
| Refuse   | 7,164,410            | 6,518,427            |
| Other  | 1,099,528            | 1,421,970            |
|  | <b>55,059,006</b>    | <b>56,875,569</b>    |
| <b>Included in above is receivables from non-exchange transactions (taxes and transfers)</b>   |                      |                      |
| Rates  | 18,723,233           | 18,997,930           |
| <b>Net balance</b>   | <b>73,782,239</b>    | <b>75,873,499</b>    |

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

| Figures in Rand                        | 2023              | 2022              |
|--|-------------------|-------------------|
| <b>7. Consumer debtors (continued)</b> |                   |                   |
| <b>Rates</b>                           |                   |                   |
| Current (0 -30 days)                   | 4,459,536         | 3,151,047         |
| 31 - 60 days                           | 863,137           | 2,305,236         |
| 61 - 90 days                           | 699,253           | 709,454           |
| 91 - 120 days                          | 616,540           | 631,911           |
| 121 - 365 days                         | 4,075,944         | 3,228,011         |
| > 365 days                             | 8,005,285         | 8,972,271         |
|  | <b>18,719,695</b> | <b>18,997,930</b> |
| <b>Electricity</b>                     |                   |                   |
| Current (0 -30 days)                   | 7,501,282         | 6,693,930         |
| 31 - 60 days                           | 1,008,789         | 4,694,712         |
| 61 - 90 days                           | 810,465           | 1,214,032         |
| 91 - 120 days                          | 821,890           | 1,086,083         |
| 121 - 365 days                         | 4,569,405         | 6,004,210         |
| > 365 days                             | 14,012,990        | 12,428,685        |
|  | <b>28,724,821</b> | <b>32,121,652</b> |
| <b>Water</b>                           |                   |                   |
| Current (0 -30 days)                   | 1,318,489         | 891,960           |
| 31 - 60 days                           | 364,017           | 785,573           |
| 61 - 90 days                           | 271,962           | 331,823           |
| 91 - 120 days                          | 246,154           | 265,994           |
| 121 - 365 days                         | 1,944,934         | 1,762,270         |
| > 365 days                             | 8,402,893         | 7,651,796         |
|  | <b>12,548,449</b> | <b>11,689,416</b> |
| <b>Sewerage</b>                        |                   |                   |
| Current (0 -30 days)                   | 784,151           | 510,720           |
| 31 - 60 days                           | 187,482           | 466,409           |
| 61 - 90 days                           | 162,796           | 157,488           |
| 91 - 120 days                          | 147,210           | 140,148           |
| 121 - 365 days                         | 894,456           | 740,054           |
| > 365 days                             | 3,345,703         | 3,109,285         |
|  | <b>5,521,798</b>  | <b>5,124,104</b>  |
| <b>Refuse</b>                          |                   |                   |
| Current (0 -30 days)                   | 597,991           | 358,867           |
| 31 - 60 days                           | 190,996           | 393,417           |
| 61 - 90 days                           | 173,377           | 163,244           |
| 91 - 120 days                          | 162,952           | 153,446           |
| 121 - 365 days                         | 1,132,000         | 934,044           |
| > 365 days                             | 4,907,093         | 4,515,409         |
|  | <b>7,164,409</b>  | <b>6,518,427</b>  |
| <b>Other (specify)</b>                 |                   |                   |
| Current (0 -30 days)                   | 81,567            | 176,369           |
| 31 - 60 days                           | 29,266            | 80,448            |
| 61 - 90 days                           | 28,711            | 32,491            |
| 91 - 120 days                          | 25,551            | 34,150            |
| 121 - 365 days                         | 115,771           | 150,117           |
| > 365 days                             | 381,907           | 948,395           |
|  | <b>662,773</b>    | <b>1,421,970</b>  |

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

| Figures in Rand                                      | 2023              | 2022              |
|--|-------------------|-------------------|
| <b>7. Consumer debtors (continued)</b>               |                   |                   |
| <b>Summary of debtors by customer classification</b> |                   |                   |
| <b>Consumers</b>                                     |                   |                   |
| Current (0 -30 days)                                 | 24,537,393        | 26,462,318        |
| 31 - 60 days   | 10,597,619        | 11,057,742        |
| 61 - 90 days   | 9,751,826         | 10,804,218        |
| 91 - 120 days  | 9,442,877         | 10,467,789        |
| 121 - 365 days                                       | 73,021,945        | 70,291,541        |
| > 365 days   | 481,156,511       | 499,689,084       |
|  | 608,508,171       | 628,772,692       |
| Less: Allowance for impairment                       | (554,376,668)     | (574,280,631)     |
|  | <b>54,131,503</b> | <b>54,492,061</b> |
| <b>Industrial/ commercial</b>                        |                   |                   |
| Current (0 -30 days)                                 | 7,571,335         | 8,893,893         |
| 31 - 60 days   | 1,145,874         | 1,407,149         |
| 61 - 90 days   | 1,016,150         | 1,357,494         |
| 91 - 120 days  | 997,778           | 1,229,155         |
| 121 - 365 days                                       | 6,245,618         | 7,352,510         |
| > 365 days   | 32,842,152        | 25,880,709        |
|  | 49,818,907        | 46,120,910        |
| Less: Allowance for impairment                       | (37,574,020)      | (30,472,659)      |
|  | <b>12,244,887</b> | <b>15,648,251</b> |
| <b>National and provincial government</b>            |                   |                   |
| Current (0 -30 days)                                 | 5,119,239         | 2,764,643         |
| 31 - 60 days   | 2,425,757         | 154,409           |
| 61 - 90 days   | 2,325,080         | 204,144           |
| 91 - 120 days  | 2,322,808         | 154,409           |
| 121 - 365 days                                       | 24,266,048        | 1,046,407         |
| > 365 days   | 102,150,829       | 4,997,598         |
|  | 138,609,761       | 9,321,610         |
| Less: Allowance for impairment                       | (131,203,911)     | (3,906,868)       |
|  | <b>7,405,850</b>  | <b>5,414,742</b>  |
| <b>Total</b>   |                   |                   |
| Current (0 -30 days)                                 | 39,168,476        | 38,229,445        |
| 31 - 60 days   | 14,669,631        | 12,733,990        |
| 61 - 90 days   | 13,420,812        | 12,497,842        |
| 91 - 120 days  | 13,105,846        | 11,851,353        |
| 121 - 365 days                                       | 97,626,991        | 78,690,458        |
| > 365 days   | 618,504,788       | 530,530,620       |
|  | 796,496,544       | 684,533,708       |
| Less: Allowance for impairment                       | (723,154,599)     | (608,660,209)     |
|  | <b>73,341,945</b> | <b>75,873,499</b> |
| <b>Less: Allowance for impairment</b>                |                   |                   |
| Current (0 -30 days)                                 | (24,425,461)      | (20,733,752)      |
| 31 - 60 days   | (12,025,943)      | (9,721,003)       |
| 61 - 90 days   | (11,274,250)      | (9,889,311)       |
| 91 - 120 days  | (11,085,549)      | (9,539,622)       |
| 121 - 365 days                                       | (85,443,103)      | (65,871,752)      |
| > 365 days   | (578,900,293)     | (492,904,770)     |

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

| Figures in Rand                                   | 2023                 | 2022                 |
|---|----------------------|----------------------|
| <b>7. Consumer debtors (continued)</b>            |                      |                      |
|   | <b>(723,154,599)</b> | <b>(608,660,210)</b> |
| <b>Reconciliation of allowance for impairment</b> |                      |                      |
| Balance at beginning of the year                  | (608,660,210)        | (555,684,833)        |
| Contributions to allowance                        | (114,494,389)        | (52,975,377)         |
|   | <b>(723,154,599)</b> | <b>(608,660,210)</b> |

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

| Figures in Rand | 2023 | 2022 |
|-----------------|------|------|
|-----------------|------|------|

### 7. Consumer debtors (continued)

#### Statutory receivables general information

##### Transaction(s) arising from statute

The following statutory receivables are classified and measured in accordance with GRAP 108, and have been classified and measured under an accounting policy that is consistent with the requirements of GRAP 108;

-property rates

Property rates receivables are statutory receivables and arise from property taxes levied on property owners based on the valuation of properties per the valuation roll in accordance with the Municipal Property Rates Act, No 6 of 2004 and the Mkhondo Local Municipality 's Property Rates Policy. A general valuation is performed every four years, with supplementary valuations in between. The municipality has begun the process of drafting and updating the accounting policies that are consistent with the requirements of GRAP 108.

##### Determination of transaction amount

Tariffs are reviewed annually as part of the MTREF process and applied as per the Property rates policy which is guided by the Local Government Property Rates Act No 6 of 2004.

##### Interest or other charges levied/charged

According to the Credit and Debt Control Policy interest is levied on on arrear municipal debt in excess of 59 days. Interest is levied monthly at the prime lending rate plus 1.25%.

##### Basis used to assess and test whether a statutory receivable is impaired

Impairment on Property rates is based on Individual collection rates. GRAP 104 Financial instruments sets out the requirements and guidelines for the impairment of financial assets subsequently carried at amortised cost.

##### Discount rate applied to the estimated future cash flows

The Municipality applies prime lending rate plus 1.25%.

##### Reconciliation of provision for impairment

##### Relating specifically to Statutory Receivables

|                          |                      |                      |
|--------------------------|----------------------|----------------------|
| Opening balance          | (125,595,357)        | (113,885,573)        |
| Provision for impairment | (28,028,072)         | (11,709,784)         |
|                          | <b>(153,623,429)</b> | <b>(125,595,357)</b> |

##### Receivables past due but not impaired

##### Relating specifically to Statutory Receivables

Statutory receivables which are less than 3 months past due are not considered to be impaired. At 30 June, 2023, 18,723,233 (2022: 18,997,930) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

|                   |            |            |
|-------------------|------------|------------|
| 1 month past due  | 4,459,536  | 3,151,047  |
| 2 months past due | 863,137    | 2,305,236  |
| 3 months past due | 13,400,560 | 13,521,647 |

##### Factors the entity considered in assessing statutory receivables past due but not impaired

Receivables are assessed in terms of their respective overall payment rates. Some debtors are therefore past due but the balances are still expected to be recoverable based on the payment rates.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

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| Figures in Rand | 2023 | 2022 |
|-----------------|------|------|
|-----------------|------|------|

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### 7. Consumer debtors (continued)

#### Receivables impaired

##### Relating specifically to Statutory Receivables

As of 30 June, 2023, statutory receivables of 153,623,429 (2022: 125,595,357) were impaired and provided for.

The amount of the provision was 28,028,072 30 June, 2023 (2022: 11,709,784).

##### Consumer debtors pledged as security

There were no statutory receivables pledged as security during the period.

##### Fair value of consumer debtors

|                  |            |            |
|------------------|------------|------------|
| Consumer debtors | 73,782,238 | 75,873,499 |
|------------------|------------|------------|

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##### Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June, 2023, 73,782,238 (2022: 75,873,499) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

|                   |            |            |
|-------------------|------------|------------|
| 1 month past due  | 14,743,015 | 17,495,693 |
| 2 months past due | 2,643,688  | 3,012,987  |
| 3 months past due | 58,486,796 | 55,364,819 |

##### Consumer debtors impaired

As of 30 June, 2023, consumer debtors of 723,154,599 (2022: 608,660,210) were impaired and provided for.

The amount of the provision was 114,494,389 as of 30 June, 2023 (2022: 52,975,377).

The carrying amount of consumer debtors are denominated in the following currencies:

|      |            |            |
|------|------------|------------|
| Rand | 73,782,238 | 75,873,499 |
|------|------------|------------|

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

| Figures in Rand                       | 2023              | 2022             |
|---------------------------------------|-------------------|------------------|
| <b>8. Cash and cash equivalents</b>   |                   |                  |
| Cash and cash equivalents consist of: |                   |                  |
| Cash on hand                          | 16,332            | 6,342            |
| Bank balances                         | 3,449,077         | 2,826,533        |
| Short-term deposits                   | 7,527,422         | 1,353,266        |
| Bank overdraft                        | -                 | -                |
|                                       | <b>10,992,831</b> | <b>4,186,141</b> |

The municipality had the following bank accounts

| Account number / description                          | Bank statement balances |                  |                  | Cash book balances |                  |                  |
|---|-------------------------|------------------|------------------|--------------------|------------------|------------------|
|   | 30 June, 2023           | 30 June, 2022    | 30 June, 2021    | 30 June, 2023      | 30 June, 2022    | 30 June, 2021    |
| First National Bank Account 620131263656              | 577,189                 | 664,431          | 5,487,826        | 3,506,307          | 2,826,535        | 7,168,767        |
| First National Bank Fixed Deposit account 62254274732 | 267,383                 | 333,357          | 220,209          | 267,383            | 394,127          | 220,209          |
| First National Bank Call account 62016967351          | 2,226,479               | 2,617            | 10,728           | 2,226,479          | 2,843            | 10,728           |
| First National Bank EPWP account 62706895911          | 1,652                   | 17,216           | 16,727           | 1,652              | 17,216           | 16,727           |
| First National Bank WSIG Account 62706897214          | 4,294                   | 19,071           | 76,168           | 4,294              | 19,071           | 76,168           |
| First National Bank FMG Account 62706892280           | 3,099                   | 2,925            | 2,842            | 3,099              | 2,925            | 2,842            |
| First National Bank INEP 62706893890                  | 3,944                   | 92,373           | 29,259           | 3,944              | 92,373           | 29,259           |
| First National Bank EQS Account 6270688617            | 4,959,024               | 823,434          | 45,248           | 4,959,024          | 823,434          | 45,248           |
| First National Bank-MIG-62706890911                   | 4,317                   | 1,278            | 161,484          | 4,317              | 1,278            | 161,484          |
| <b>Total</b>  | <b>8,047,381</b>        | <b>1,956,702</b> | <b>6,050,491</b> | <b>10,976,499</b>  | <b>4,179,802</b> | <b>7,731,432</b> |

### 9. Biological assets that form part of an agricultural activity

|   | 2023             |   |                | 2022             |   |                |
|---|------------------|---|----------------|------------------|---|----------------|
|   | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Trees in timber plantation - Consumable | 94,236,526       | -   | 94,236,526     | 66,854,927       | -   | 66,854,927     |

#### Reconciliation of biological assets that form part of an agricultural activity - 2023

|   | Opening balance | Gains or losses arising from changes in fair value | Total      |
|---|-----------------|--|------------|
| Trees in timber plantation - Consumable | 66,854,927      | 27,381,599   | 94,236,526 |

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

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|                 |      |      |
|-----------------|------|------|
| Figures in Rand | 2023 | 2022 |
|-----------------|------|------|

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### 9. Biological assets that form part of an agricultural activity (continued)

#### Reconciliation of biological assets that form part of an agricultural activity - 2022

|   | Opening balance | Gains or losses arising from changes in fair value | Total      |
|---|-----------------|--|------------|
| Trees in timber plantation - Consumable | 60,597,062      | 6,257,865  | 66,854,927 |

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#### Non-financial information

##### Quantities of each biological asset

|   |            |            |
|---|------------|------------|
| Trees in timber plantation - Consumable | 91,724,599 | 66,854,920 |
|---|------------|------------|

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#### Afforestation Permits

Commercial afforestation is regulated in South Africa. Water Use Permits are required for legal afforestation. The catchment under which the Mkhondo Municipality license is issued is the Assegaai River Catchment drainage region W52C. The license is issued in the name of Portion 0 Farm 149 Piet Retief Town and Townlands. The start date is 1/01/1972. The extent of the afforestable land is recorded as:

Gum: 1038.1 ha

Pine: 863.5 ha

Wattle: 555.4 ha

Other: 8.1 ha

The total afforestable area is: 2632 ha.

The currently recorded forest area (including TU) for the Piet Retief Townlands is 2465.1 ha which is within the allowable permit area. There is a decrease in the reported forest area (previously 2484 ha) which can be attributed to adjustments relating to the exclusion of further Settlement areas.

Next fair valuation on the plantation will be due on 30 June 2024.

#### Pledged as security

There are no biological assets pledged as security.

#### Restrictions imposed by regulations

There are no biological assets which are subject to to restrictions imposed by regulations.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

Figures in Rand

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2022

### 9. Biological assets that form part of an agricultural activity (continued)

#### Methods and assumptions used in determining fair value

Valuation of forested land requires knowledge of the location and current volume of timber resources. Forests are dynamic, biological systems, and estimates of growth for various management strategies were applied. Mean annual increment (MAI) was used on a given index age for a specified silviculture regime (Gum 10 years, Pine 25 years and Wattle 10 years), to determine volume production potential. A MAI (gum: 15.4 tons/ha/year, pine: 13.8 tons/ha/year,

wattle: 8 tons/ha/year) was used in the evaluation. The standing timber value per hectare is determined by valuing the yield at rotation age and deducting from that the harvesting and delivery cost. The profitability of the crop is then determined by the Faust Mann Formula and incorporates all the costs. Timber prices used were provided by NCT, TWK, and Mondi.

Harvesting and transport costs were supplied by local contractors in 2023. The Municipality used an expert to calculate the fair value of biological assets as at 30 June 2023.

#### Financial Risk Strategy

The entity is exposed to financial risks arising from the changes in market prices of timber. The entity does not anticipate that timber prices will decline significantly in the foreseeable future and therefore has not entered into derivative or other contracts to manage the risk of a decline in timber prices. The entity reviews its outlook for timber prices regularly in considering the need for active financial risk management.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

Figures in Rand

### 10. Investment property

|                     | 2023                |   |                | 2022                |   |                |
|---------------------|---------------------|---|----------------|---------------------|---|----------------|
|                     | Cost /<br>Valuation | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying value | Cost /<br>Valuation | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying value |
| Investment property | 29,104,010          | (15,497,869)  | 13,606,141     | 29,104,010          | (14,998,606)  | 14,105,404     |

#### Reconciliation of investment property - 2023

|                     | Opening<br>balance | Transfers | Depreciation | Total      |
|---------------------|--------------------|-----------|--------------|------------|
| Investment property | 14,105,404         | (4,500)   | (494,763)    | 13,606,141 |

#### Reconciliation of investment property - 2022

|                     | Opening<br>balance | Disposals | Depreciation | Total      |
|---------------------|--------------------|-----------|--------------|------------|
| Investment property | 14,612,990         | (12,822)  | (494,764)    | 14,105,404 |

#### Pledged as security

There is no investment properties pledged as security.]

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

Figures in Rand

### 11. Property, plant and equipment

|   | 2023                 |   |                      | 2022                 |   |                      |
|---|----------------------|---|----------------------|----------------------|---|----------------------|
|   | Cost /<br>Valuation  | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying value       | Cost /<br>Valuation  | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying value       |
| Land  | 16,584,633           | -   | 16,584,633           | 16,580,132           | -   | 16,580,132           |
| Buildings                                   | 95,627,028           | (40,342,105)  | 55,284,923           | 95,627,029           | (37,092,132)  | 58,534,897           |
| Plant and machinery                         | 9,380,074            | (4,285,339)   | 5,094,735            | 9,922,909            | (4,038,380)   | 5,884,529            |
| Furniture and fixtures                      | 17,274,748           | (9,401,608)   | 7,873,140            | 17,780,885           | (8,563,432)   | 9,217,453            |
| Motor vehicles                              | 41,480,352           | (26,117,729)  | 15,362,623           | 35,651,440           | (22,545,596)  | 13,105,844           |
| IT equipment                                | 13,778,143           | (6,320,256)   | 7,457,887            | 13,503,694           | (5,030,120)   | 8,473,574            |
| Infrastructure                              | 2,856,488,010        | (1,489,272,245)   | 1,367,215,765        | 2,827,396,782        | (1,390,687,597)   | 1,436,709,185        |
| Community                                   | 115,245,674          | (50,772,010)  | 64,473,664           | 122,393,991          | (46,155,545)  | 76,238,446           |
| Landfill sites                              | 19,475,966           | (13,965,660)  | 5,510,306            | 21,550,382           | (11,442,757)  | 10,107,625           |
| Roads Infrastructure- Work In Progress      | 19,378,983           | -   | 19,378,983           | 14,143,584           | -   | 14,143,584           |
| Community Assets - Work In Progress         | 3,408,608            | -   | 3,408,608            | 3,408,608            | -   | 3,408,608            |
| Sanitation Infrastrucure - Work in Progress | 179,985,305          | -   | 179,985,305          | 133,612,099          | -   | 133,612,099          |
| Water Infrastructure - Work in Progress     | 23,481,971           | -   | 23,481,971           | 16,044,707           | -   | 16,044,707           |
| <b>Total</b>                                | <b>3,411,589,495</b> | <b>(1,640,476,952)</b>  | <b>1,771,112,543</b> | <b>3,327,616,242</b> | <b>(1,525,555,559)</b>  | <b>1,802,060,683</b> |

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

Figures in Rand

### 11. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2023

|   | Opening balance      | Additions          | Disposals          | Transfers received | Transfers           | Other changes, movements | Depreciation        | Impairment loss     | Total                |
|---|----------------------|--------------------|--------------------|--------------------|---------------------|--------------------------|---------------------|---------------------|----------------------|
| Land  | 16,580,132           | -                  | -                  | 4,501              | -                   | -                        | -                   | -                   | 16,584,633           |
| Buildings                                   | 58,534,897           | -                  | -                  | -                  | -                   | -                        | (3,249,591)         | (383)               | 55,284,923           |
| Plant and machinery                         | 5,884,529            | 95,206             | (267,065)          | -                  | -                   | -                        | (617,935)           | -                   | 5,094,735            |
| Furniture and fixtures                      | 9,217,453            | 33,800             | (94,695)           | -                  | -                   | -                        | (1,283,418)         | -                   | 7,873,140            |
| Motor vehicles                              | 13,105,844           | 6,282,827          | (341,884)          | -                  | -                   | -                        | (3,499,927)         | (184,237)           | 15,362,623           |
| IT equipment                                | 8,473,574            | 320,085            | (12,909)           | -                  | -                   | -                        | (1,322,863)         | -                   | 7,457,887            |
| Infrastructure                              | 1,436,709,185        | 2,879,812          | (3,103,841)        | 30,911,579         | -                   | -                        | (67,285,710)        | (32,895,260)        | 1,367,215,765        |
| Community                                   | 76,238,446           | -                  | (4,738,578)        | -                  | -                   | -                        | (5,734,915)         | (1,291,289)         | 64,473,664           |
| Landfil Site                                | 10,107,625           | -                  | -                  | -                  | -                   | (2,074,417)              | (2,522,902)         | -                   | 5,510,306            |
| Roads infrastructure - Work In Progress     | 14,143,584           | 27,678,415         | -                  | -                  | (22,443,016)        | -                        | -                   | -                   | 19,378,983           |
| Community assets- Work In Progress          | 3,408,608            | -                  | -                  | -                  | -                   | -                        | -                   | -                   | 3,408,608            |
| Sanitation Infrastructure- Work in Progress | 133,612,099          | 57,464,166         | -                  | -                  | (8,468,563)         | (2,622,397)              | -                   | -                   | 179,985,305          |
| Water Infrastructure - Work In Progress     | 16,044,707           | 7,437,264          | -                  | -                  | -                   | -                        | -                   | -                   | 23,481,971           |
|   | <b>1,802,060,683</b> | <b>102,191,575</b> | <b>(8,558,972)</b> | <b>30,916,080</b>  | <b>(30,911,579)</b> | <b>(4,696,814)</b>       | <b>(85,517,261)</b> | <b>(34,371,169)</b> | <b>1,771,112,543</b> |

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

Figures in Rand

### 11. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2022

|  | Opening<br>balance   | Additions          | Disposals           | Transfers<br>received | Transfers            | Other<br>changes,<br>movements | Depreciation        | Impairment<br>loss  | Total                |
|--|----------------------|--------------------|---------------------|-----------------------|----------------------|--------------------------------|---------------------|---------------------|----------------------|
| Land   | 28,991,304           | -                  | (12,411,172)        | -                     | -                    | -                              | -                   | -                   | 16,580,132           |
| Buildings                                    | 61,597,183           | -                  | -                   | 515,129               | -                    | -                              | (3,577,415)         | -                   | 58,534,897           |
| Plant and machinery                          | 6,316,387            | 189,475            | -                   | -                     | -                    | -                              | (610,610)           | (10,723)            | 5,884,529            |
| Furniture and fixtures                       | 9,436,401            | 1,020,431          | -                   | -                     | -                    | -                              | (1,227,486)         | (11,893)            | 9,217,453            |
| Motor vehicles                               | 16,176,614           | -                  | (55,416)            | -                     | -                    | -                              | (2,861,714)         | (153,640)           | 13,105,844           |
| IT equipment                                 | 9,102,892            | 665,554            | -                   | -                     | -                    | -                              | (1,191,498)         | (103,374)           | 8,473,574            |
| Infrastructure                               | 1,389,663,488        | 4,246,375          | (8,243,669)         | 133,585,270           | -                    | -                              | (72,826,136)        | (9,716,143)         | 1,436,709,185        |
| Community                                    | 72,983,442           | -                  | (2,004)             | 9,129,676             | -                    | -                              | (5,704,176)         | (168,492)           | 76,238,446           |
| Landfil Site                                 | 16,623,792           | -                  | -                   | -                     | -                    | (3,195,422)                    | (3,320,745)         | -                   | 10,107,625           |
| Roads Infrastructure- Work in Progress       | 2,178,026            | 24,083,259         | -                   | -                     | (12,117,701)         | -                              | -                   | -                   | 14,143,584           |
| Community Assets - Work in Progress          | 4,101,171            | 12,398,247         | -                   | -                     | (9,129,676)          | (3,961,134)                    | -                   | -                   | 3,408,608            |
| Electrical Infrastructure - Work in Progress | 27,540,450           | 22,156,443         | -                   | -                     | (49,696,893)         | -                              | -                   | -                   | -                    |
| Sanitation Infrastructure - Work in Progress | 59,701,603           | 73,910,496         | -                   | -                     | -                    | -                              | -                   | -                   | 133,612,099          |
| Water Infrastructure - Work in Progress      | 34,531,797           | 50,698,214         | -                   | -                     | (69,185,304)         | -                              | -                   | -                   | 16,044,707           |
|  | <b>1,738,944,550</b> | <b>189,368,494</b> | <b>(20,712,261)</b> | <b>143,230,075</b>    | <b>(140,129,574)</b> | <b>(7,156,556)</b>             | <b>(91,319,780)</b> | <b>(10,164,265)</b> | <b>1,802,060,683</b> |

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

| Figures in Rand   | 2023               | 2022               |
|---|--------------------|--------------------|
| <b>11. Property, plant and equipment (continued)</b>  |                    |                    |
| <b>Pledged as security</b>  |                    |                    |
| There is no Property Plant and Equipment pledged as security:   |                    |                    |
| <b>Assets subject to finance lease (Net carrying amount)</b>  |                    |                    |
| Motor vehicles  | 1,020,915          | 2,328,404          |
| <b>Property, plant and equipment in the process of being constructed or developed</b>   |                    |                    |
| <b>Cumulative expenditure recognised in the carrying value of property, plant and equipment</b>                                       |                    |                    |
| Roads Infrastructure  | 19,378,993         | 14,143,584         |
| Sanitation Infrastructure   | 179,985,305        | 133,612,099        |
| Water Infrastructure  | 23,481,971         | 16,044,707         |
| Community   | 3,408,688          | 3,408,608          |
|   | <b>226,254,957</b> | <b>167,208,998</b> |
| <b>Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected</b> |                    |                    |
| Upgrading of Main substation<br>[State the reasons for delay]   | -                  | 39,511,897         |
|   | -                  | <b>39,511,897</b>  |

### Reconciliation of Work-in-Progress 2023

|                                | Included within Infrastructure | Included within Community | Total              |
|--------------------------------|--------------------------------|---------------------------|--------------------|
| Opening balance                | 163,800,390                    | 3,408,607                 | 167,208,997        |
| Additions/capital expenditure  | 92,579,845                     | -                         | 92,579,845         |
| Other movements [specify]      | (2,622,397)                    | -                         | (2,622,397)        |
| Transferred to completed items | (30,911,579)                   | -                         | (30,911,579)       |
|                                | <b>222,846,259</b>             | <b>3,408,607</b>          | <b>226,254,866</b> |

### Reconciliation of Work-in-Progress 2022

|                                | Included within Infrastructure | Included within Community | Total              |
|--------------------------------|--------------------------------|---------------------------|--------------------|
| Opening balance                | 123,951,876                    | 8,062,305                 | 132,014,181        |
| Additions/capital expenditure  | 170,848,412                    | 8,437,112                 | 179,285,524        |
| Transferred to completed items | (130,999,898)                  | (13,090,810)              | (144,090,708)      |
|                                | <b>163,800,390</b>             | <b>3,408,607</b>          | <b>167,208,997</b> |

### Expenditure incurred to repair and maintain property, plant and equipment

#### Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

|                     |            |            |
|---------------------|------------|------------|
| Contracted services | 26,250,003 | 37,245,444 |
|---------------------|------------|------------|

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

Figures in Rand

### 12. Heritage assets

|   | 2023                |                                     |                  | 2022                |                                     |                  |
|---|---------------------|-------------------------------------|------------------|---------------------|-------------------------------------|------------------|
|   | Cost /<br>Valuation | Accumulated<br>impairment<br>losses | Carrying value   | Cost /<br>Valuation | Accumulated<br>impairment<br>losses | Carrying value   |
| Art Collections, antiquities and exhibits | 2,860,000           | -                                   | 2,860,000        | 2,860,000           | -                                   | 2,860,000        |
| Mayoral Chain                             | 56,300              | -                                   | 56,300           | 56,300              | -                                   | 56,300           |
| <b>Total</b>                              | <b>2,916,300</b>    | <b>-</b>                            | <b>2,916,300</b> | <b>2,916,300</b>    | <b>-</b>                            | <b>2,916,300</b> |

#### Reconciliation of heritage assets 2023

|   | Opening<br>balance | Total            |
|---|--------------------|------------------|
| Art Collections, antiquities and exhibits | 2,860,000          | 2,860,000        |
| Mayoral Chain                             | 56,300             | 56,300           |
|   | <b>2,916,300</b>   | <b>2,916,300</b> |

#### Reconciliation of heritage assets 2022

|   | Opening<br>balance | Additions     | Transfers<br>received | Total            |
|---|--------------------|---------------|-----------------------|------------------|
| Art Collections, antiquities and exhibits | -                  | -             | 2,860,000             | 2,860,000        |
| Mayoral Chain                             | -                  | 56,300        | -                     | 56,300           |
|   | <b>-</b>           | <b>56,300</b> | <b>2,860,000</b>      | <b>2,916,300</b> |

#### Pledged as security

There is no heritage assets pledged as security:

[Insert terms and conditions here where terms and conditions are the same]

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

| Figures in Rand   | 2023               | 2022                |
|---|--------------------|---------------------|
| <b>13. Payables from exchange transactions</b>  |                    |                     |
| Trade payables  | 721,165,077        | 581,444,650         |
| Payments received in advanced - contract in process   | 5,926,165          | 6,326,774           |
| Advance payments for sales of land  | 7,404,828          | 7,404,828           |
| Retentions  | 29,761,339         | 26,777,592          |
| Accrued bonus   | 5,979,590          | 5,748,487           |
| Deposits received   | 35,066             | 35,066              |
| Accrued leave   | 22,840,205         | 21,667,102          |
| Unallocated deposits  | 8,262,752          | 7,899,468           |
| Sundry creditors  | 1,287,951          | 518,388             |
| Accrued creditors   | 1,757,830          | 5,648,083           |
| Payrol liabilities  | 23,713,304         | 24,850,273          |
|   | <b>828,134,107</b> | <b>688,320,711</b>  |
| <b>14. Consumer deposits</b>  |                    |                     |
| Electricity   | 2,482,085          | 2,570,592           |
| Water   | 1,597,989          | 1,563,474           |
| Refuse  | 28,723             | 28,723              |
|   | <b>4,108,797</b>   | <b>4,162,789</b>    |
| <b>15. Employee benefit obligations</b>   |                    |                     |
| <b>Defined benefit plan</b>   |                    |                     |
| The plan is a post employment medical benefit plan.   |                    |                     |
| <b>Post retirement medical aid plan</b>   |                    |                     |
| The Municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme. Contribution rates tables are based only on type and number of dependants, and income. As expected health care costs (or claims) tend to increase with average age, younger (inservice) members generally subsidise older (continuation) members. |                    |                     |
| Employees appointed by the Municipality prior to 31/12/1993 will receive a post-employment subsidy of 70% of the contribution payable should they be a member of a medical scheme at retirement. Continuation members and their eligible dependants receive a 70% subsidy.  |                    |                     |
| All post-employment subsidies are subject to a maximum subsidy. The maximum subsidy is R 5,277 per principal member per month for the year ending 30 June 2024, and has been assumed to increase annually on 1 July at 75% of salary inflation.   |                    |                     |
| Upon a member's death-in-service, surviving dependants are not entitled to commence receipt of the subsidy. Upon a member's death-in-retirement, surviving dependants are entitled to continue to receive the same subsidy.   |                    |                     |
| <b>The amounts recognised in the statement of financial position are as follows:</b>  |                    |                     |
| <b>Carrying value</b>   |                    |                     |
| Present value of the defined benefit obligation-wholly unfunded   | (9,435,000)        | (10,852,000)        |
| Non-current liabilities   | (8,534,000)        | (9,975,000)         |
| Current liabilities   | (901,000)          | (877,000)           |
|   | <b>(9,435,000)</b> | <b>(10,852,000)</b> |

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

| Figures in Rand  | 2023               | 2022             |
|--|--------------------|------------------|
| <b>15. Employee benefit obligations (continued)</b>  |                    |                  |
| <b>Changes in the present value of the defined benefit obligation are as follows:</b>  |                    |                  |
| Opening balance  | (270,000)          | 355,000          |
| Net expense recognised in the statement of financial performance   | (1,417,000)        | (625,000)        |
|  | <b>(1,687,000)</b> | <b>(270,000)</b> |
| <b>Net expense recognised in the statement of financial performance</b>  |                    |                  |
| Current service cost   | 73,000             | 72,000           |
| Interest cost  | 1,169,000          | 1,018,000        |
| Actuarial (gains) losses   | (1,782,000)        | (823,000)        |
| Expected employer benefit payments   | (877,000)          | (892,000)        |
|  | <b>(1,417,000)</b> | <b>(625,000)</b> |
| <b>Calculation of actuarial gains and losses</b>   |                    |                  |
| Actuarial (gains) losses – Obligation  | (1,782,000)        | (823,000)        |
| <b>Key assumptions used</b>  |                    |                  |
| Assumptions used at the reporting date:  |                    |                  |
| Discount rates used  | 11.38 %            | 11.21 %          |
| Net of health care cost inflation discount rate  | 3.98 %             | 3.09 %           |
| Maximum subsidy inflation rate   | 4.97 %             | 5.54 %           |
| Net of maximum subsidy inflation discount rate   | 6.11 %             | 5.58 %           |
| Expected increase in healthcare costs  | 7.12 %             | 7.88 %           |
| <b>Discount Rate</b>   |                    |                  |
| GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the post-employment liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve. Consequently, a discount rate of 11.38% per annum has been used. The corresponding index-linked yield at this term is 4.98%. These rates do not reflect any adjustment for taxation. These rates were deduced from the interest rate data obtained from the Johannesburg Stock Exchange after the market close on 30 June 2023. |                    |                  |
| <b>16. Unspent conditional grants and receipts</b>   |                    |                  |
| <b>Unspent conditional grants and receipts comprises of:</b>   |                    |                  |
| <b>Unspent conditional grants and receipts</b>   |                    |                  |
| Disaster Grant   | 6,735,830          | -                |
| Water Services Infrastructure Grant  | -                  | 7,053,987        |
| Provincial Treasury Grant  | 581,933            | -                |
|  | <b>7,317,763</b>   | <b>7,053,987</b> |
| <b>Movement during the year</b>  |                    |                  |
| Balance at the beginning of the year   | 7,053,987          | 23,261,953       |
| Additions during the year  | 142,386,257        | 196,196,000      |
| Income recognition during the year   | (135,068,494)      | (189,142,013)    |
| Grants repaid during the year  | (7,053,987)        | (23,261,953)     |
|  | <b>7,317,763</b>   | <b>7,053,987</b> |

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

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| Figures in Rand | 2023 | 2022 |
|-----------------|------|------|
|-----------------|------|------|

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### 16. Unspent conditional grants and receipts (continued)

The municipality received additional funding for Disaster Support grant of R8 million and R7 million for roads rehabilitation and data cleansing from Provincial Treasury.

See note for reconciliation of grants from National/Provincial Government..

These amounts are invested in a ring-fenced investment until utilised.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

Figures in Rand 2023 2022

### 17. Provisions

#### Reconciliation of provisions - 2023

|  | Opening<br>Balance | Additions        | Total             |
|--|--------------------|------------------|-------------------|
| Environmental rehabilitation             | 29,890,782         | 797,640          | 30,688,422        |
| Long service awards - Current portion    | 1,214,000          | (427,000)        | 787,000           |
| Long service awards- Non current portion | 10,431,000         | 1,036,000        | 11,467,000        |
|  | <b>41,535,782</b>  | <b>1,406,640</b> | <b>42,942,422</b> |

#### Reconciliation of provisions - 2022

|  | Opening<br>Balance | Additions          | Interest<br>charge | Total             |
|--|--------------------|--------------------|--------------------|-------------------|
| Environmental rehabilitation             | 30,403,547         | (512,765)          | -                  | 29,890,782        |
| Long service awards - Current portion    | 2,790,000          | (2,909,000)        | 1,333,000          | 1,214,000         |
| Long service awards- Nom current portion | 12,824,000         | (2,393,000)        | -                  | 10,431,000        |
|  | <b>46,017,547</b>  | <b>(5,814,765)</b> | <b>1,333,000</b>   | <b>41,535,782</b> |
| Non-current liabilities                  |                    |                    | 42,155,422         | 40,321,782        |
| Current liabilities                      |                    |                    | 787,000            | 1,214,000         |
|  |                    |                    | <b>42,942,422</b>  | <b>41,535,782</b> |

#### Environmental rehabilitation provision

#### GENERAL INFORMATION

The Piet Retief landfill is situated on Portion 7 of Piet Retief Townlands 149 HT, District of Piet Retief, approximately 3 km South of Piet Retief.

A permit referenced 16/2/7/W511/D015/Z2/P388 for the landfill was issued by the national Department of Water Affairs and Forestry on 24 January 2001 (Doc 1). The permit has an unlimited period of validity.

#### FINANCIAL ASSUMPTIONS USED

##### Unit costs

Unit costs for each of the cost elements are obtained annually by means of a commercial quotation. Consumer Price Index (CPI)

The CPI is used for determining the future value of current costs in the year when the cost is projected to be incurred. The CPI figure used in the GLCCM is based on the three-month average CPI for the quarter that includes the financial year-end date. The average of the CPI for the last three months amounted to 6.1716%.

##### Discount rate

GRAP 19 states that where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation. In view of the long operational life of landfills, the time value of money is considered material. GRAP 19 prescribes that the discount rate shall be the pre-tax rate that reflects current market assessments of the time value of money, and the risks specific to the liability. Normally corporate bond rates are used to determine the discount rate. In line with GRAP 25 Defined benefit plans, government bond rates may also be used to determine the discount rate. The liability for this purpose is in most cases determined for a government entity (municipality). Therefore, government bond rates are considered a more appropriate indicator of the risk associated with the entity than corporate bond rates to determine the discount rate. The government bond rate most consistent with the estimated term of the liability should be used. As inflation-linked RSA retail bond rates have longer terms than fixed RSA retail bond rates, inflation-linked rates are used<sup>17</sup>. The rate most consistent with the remaining life of the landfill published at the end of the quarter that includes the financial year-end date was used. For this landfill the rate associated with the maximum period of 5 years was used, i.e. 4.75% above CPI.

#### Long Service Awards

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

Figures in Rand 2023 2022

### 17. Provisions (continued)

#### Long service awards

The effective date of the valuation is 30 June 2023 (the "Valuation Date"). The valuation considers all employees eligible for LSA. The LSA liability is not a funded arrangement, i.e. no separate assets have been set aside to meet this liability. The previous actuarial valuation of the Municipality's LSA liability was undertaken as at 30 June 2022.

The Municipality offers employees LSA for every five years of service completed, from ten years of service to 45 years of service, inclusive

#### Key assumptions

In estimating the unfunded liability for LSA of the Municipality a number of actuarial assumptions are required. The GRAP 25 Statement places the responsibility on management to set these assumptions, as guided by the principles set out in the Statement and in discussion with the actuary. It should be noted that the valuation method and assumptions do not affect the ultimate cost of the LSA arrangement – this is determined by actual experience and by the benefits provided.

The method and assumptions influence how the past service liability and Current-Service costs are recognised over time.

The key financial and demographic assumptions are summarised below.

#### Key Financial Assumptions

| Assumption                                  | Value p.a. |
|---|------------|
| Discount rate                               | 11.53%     |
| General earnings inflation rate (long-term) | 6.75%      |
| <i>Net effective discount rate</i>          | 4.48%      |

### 18. Revenue

|                                    |                    |                    |
|------------------------------------|--------------------|--------------------|
| Service charges                    | 202,821,684        | 213,892,459        |
| Construction contracts             | 9,930,435          | -                  |
| Rental of facilities and equipment | 1,114,395          | 1,158,264          |
| Licences and permits               | 190,575            | 152,109            |
| Other income - (rollup)            | 2,069,884          | 2,419,042          |
| Interest received - investment     | 37,130,763         | 32,364,877         |
| Property rates                     | 80,030,574         | 74,503,637         |
| Government grants & subsidies      | 427,622,494        | 464,452,868        |
| Public contributions and donations | 1,500,000          | 5,963,500          |
| Fines, Penalties and Forfeits      | 6,143,639          | 6,093,863          |
|                                    | <b>768,554,443</b> | <b>801,000,619</b> |

#### The amount included in revenue arising from exchanges of goods or services are as follows:

|                                    |                    |                    |
|------------------------------------|--------------------|--------------------|
| Service charges                    | 202,821,684        | 213,892,459        |
| Construction contracts             | 9,930,435          | -                  |
| Rental of facilities and equipment | 1,114,395          | 1,158,264          |
| Licences and permits               | 190,575            | 152,109            |
| Other income - (rollup)            | 2,069,884          | 2,419,042          |
| Interest received - investment     | 37,130,763         | 32,364,877         |
|                                    | <b>253,257,736</b> | <b>249,986,751</b> |

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

| Figures in Rand   | 2023               | 2022               |
|---|--------------------|--------------------|
| <b>18. Revenue (continued)</b>  |                    |                    |
| <b>The amount included in revenue arising from non-exchange transactions is as follows:</b> |                    |                    |
| <b>Taxation revenue</b>   |                    |                    |
| Property rates  | 80,030,574         | 74,503,637         |
| <b>Transfer revenue</b>   |                    |                    |
| Government grants & subsidies   | 427,622,494        | 464,452,868        |
| Public contributions and donations  | 1,500,000          | 5,963,500          |
| Fines, Penalties and Forfeits   | 6,143,639          | 6,093,863          |
|   | <b>515,296,707</b> | <b>551,013,868</b> |
| <b>19. Service charges</b>  |                    |                    |
| Sale of electricity   | 150,870,469        | 165,426,603        |
| Sale of water   | 25,359,968         | 23,646,676         |
| Sewerage and sanitation charges   | 12,290,291         | 11,340,303         |
| Refuse removal  | 14,300,956         | 13,478,877         |
|   | <b>202,821,684</b> | <b>213,892,459</b> |
| <b>20. Rental of facilities and equipment</b>   |                    |                    |
| <b>Premises</b>   |                    |                    |
| Premises  | 113,443            | 1,158,264          |
| <b>Facilities and equipment</b>   |                    |                    |
| Rental of facilities  | 1,000,952          | -                  |
|   | <b>1,114,395</b>   | <b>1,158,264</b>   |
| <b>21. Licences and permits</b>   |                    |                    |
| Licences and permits 1  | 190,575            | 152,109            |
| <b>22. Other income</b>   |                    |                    |
| Cemetery fees   | 192,067            | 260,561            |
| Photocopying  | 428,774            | 483,355            |
| Building and clearing certificates  | 921,138            | 1,135,463          |
| Library fees  | 956                | 1,318              |
| Advertising income  | -                  | 6,062              |
| Escourting fees   | 34,320             | 12,493             |
| Other income  | 492,629            | 519,790            |
|   | <b>2,069,884</b>   | <b>2,419,042</b>   |
| <b>23. Investment revenue</b>   |                    |                    |
| <b>Interest revenue</b>   |                    |                    |
| Bank  | 1,261,526          | 256,161            |
| Interest charged on trade and other receivables   | 35,869,237         | 32,108,716         |
|   | <b>37,130,763</b>  | <b>32,364,877</b>  |

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

| Figures in Rand           | 2023                  | 2022                  |
|---------------------------|-----------------------|-----------------------|
| <b>24. Property rates</b> |                       |                       |
| <b>Rates received</b>     |                       |                       |
| Residential               | 39,613,481            | 36,672,920            |
| Commercial                | 15,904,371            | 13,563,364            |
| State                     | 4,902,134             | 6,324,085             |
| Small holdings and farms  | 22,488,423            | 22,518,309            |
| Less: Income forgone      | (2,877,835)           | (4,575,041)           |
|                           | <b>80,030,574</b>     | <b>74,503,637</b>     |
| <b>Valuations</b>         |                       |                       |
| Residential               | 3,636,144,650         | 3,528,161,250         |
| Commercial                | 1,526,233,500         | 1,334,629,800         |
| State                     | 678,920,250           | 908,103,400           |
| Municipal                 | 782,169,830           | 744,313,900           |
| Small holdings and farms  | 5,866,516,000         | 5,789,005,000         |
| Vacant Land               | 210,981,010           | 154,908,780           |
| Other                     | -                     | 101,713,810           |
|                           | <b>12,700,965,240</b> | <b>12,560,835,940</b> |

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2020. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

| Figures in Rand                               | 2023               | 2022               |
|---|--------------------|--------------------|
| <b>25. Government grants &amp; subsidies</b>  |                    |                    |
| <b>Operating grants</b>                       |                    |                    |
| Equitable share                               | 303,974,000        | 269,848,953        |
| Finance Management Grant                      | 3,100,000          | 3,000,000          |
| LGSETA  | 386,269            | 130,521            |
| Expanded Public Works Programme               | 2,855,000          | 2,211,000          |
| Municipal Infrastructure Grant                | 4,481,250          | 4,141,800          |
| Provincial Treasury Data Cleansing Grant      | 2,918,068          | -                  |
|   | <b>317,714,587</b> | <b>279,332,274</b> |
| <b>Capital grants</b>                         |                    |                    |
| Municipal Infrastructure Grant                | 85,143,750         | 88,814,581         |
| Water Services Infrastructure Grant           | 19,999,987         | 77,946,013         |
| Disaster Management Grant                     | 1,264,170          | -                  |
| Provincial Treasury Road maintenance Grant    | 3,500,000          | -                  |
| Integrated National Electrification Programme | -                  | 18,360,000         |
|   | <b>109,907,907</b> | <b>185,120,594</b> |
|   | <b>427,622,494</b> | <b>464,452,868</b> |

### Conditional and Unconditional

Included in above are the following grants and subsidies received:

|                               |                    |                    |
|-------------------------------|--------------------|--------------------|
| Conditional grants received   | 135,068,494        | 194,603,915        |
| Unconditional grants received | 303,974,000        | 269,848,953        |
|                               | <b>439,042,494</b> | <b>464,452,868</b> |

### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of 335 (2022: 314), which is funded from the grant.

### Municipal Infrastructure Grant

|   |              |              |
|---|--------------|--------------|
| Current-year receipts                   | 89,616,000   | 92,956,381   |
| Conditions met - transferred to revenue | (89,616,000) | (92,956,381) |
|   | -            | -            |

Conditions still to be met - remain liabilities (see note 16).

The conditions of the projects are directly in-line with the DORA requirements. The Municipal Infrastructure Grant programme is aimed at providing all South Africans with at least a basic level of service through the provision of grant finance aimed at covering the capital cost of basic infrastructure for the poor. The MIG programme is a key part of government's overall drive to alleviate poverty in the country and, therefore, infrastructure is to be provided in such a way that employment is maximised and opportunities are created for enterprises to flourish.

### Expanded Public Works Programme

|   |             |             |
|---|-------------|-------------|
| Current-year receipts                   | 2,855,000   | 2,211,000   |
| Conditions met - transferred to revenue | (2,855,000) | (2,211,000) |

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

| Figures in Rand   | 2023             | 2022         |
|---|------------------|--------------|
| <b>25. Remuneration of councillors (continued)</b>  |                  |              |
|   | -                | -            |
| Conditions still to be met - remain liabilities (see note 16).  |                  |              |
| Incentive paid to public bodies to incentivise work creation. The incentive is paid per quantum of employment created for the EPWP target group and can be measured in person-days of work or full time equivalent job.   |                  |              |
| <b>Finance Management Grant</b>   |                  |              |
| Current-year receipts   | 3,100,000        | 3,000,000    |
| Conditions met - transferred to revenue   | (3,100,000)      | (3,000,000)  |
|   | -                | -            |
| Conditions still to be met - remain liabilities (see note 16).  |                  |              |
| The purpose of the FMG is to promote and support municipal financial management reforms and assist municipalities with the implementation of the MFMA.  |                  |              |
| <b>Disaster Relief Grant</b>  |                  |              |
| Current-year receipts   | 8,000,000        | -            |
| Conditions met - transferred to revenue   | (1,264,170)      | -            |
|   | <b>6,735,830</b> | -            |
| Conditions still to be met - remain liabilities (see note 16).  |                  |              |
| The Grant is to provide intervention measures for the infrastructure damages due to impact of storms that happened in December 2022.  |                  |              |
| <b>LGSETA</b>   |                  |              |
| Current-year receipts   | 386,269          | 130,521      |
| Conditions met - transferred to revenue   | (386,269)        | (130,521)    |
|   | -                | -            |
| Conditions still to be met - remain liabilities (see note 16).  |                  |              |
| The Local Government, Water and Related Services SETA was established in terms of the Skills Development Act (1998). In terms of the provisions of the Act, the SETA was first established in 2000 and was recertified by the Minister of Labour in March 2005, with a reduced scope of coverage that excluded the Water Sector. It was at this stage renamed the The Local Government Sector Education & Training Authority (LGSETA). In 2011 responsibility for all SETAs was moved from the Department of Labour to the newly established Department of Higher Education and Training. The LGSETA was recertified by the Minister for the National Skills Development Strategy III period (2011-2016). The LGSETA has aligned its contributions to the implementation of National Skills Development Strategy III (NSDS III) primarily to support the achievement of OUTCOME 9 of the Cabinet Programme of Action, which aims to improve the effectiveness and efficiency of skills development system within the local government sector. The strategic outcome of the SETA will therefore produce a skilled and capable local government workforce. The conditions of the projects are directly in-line with the DORA requirements. The Municipal Infrastructure Grant programme is aimed at providing all South Africans with at least a basic level of service through the provision of grant finance aimed at covering the capital cost of basic infrastructure for the poor. |                  |              |
| <b>Integrated National Electrification Programme</b>  |                  |              |
| Current-year receipts   | 11,420,000       | 18,360,000   |
| Transferred to Construction Revenue   | (9,930,435)      | (18,360,000) |
| VAT Output  | (1,489,565)      | -            |

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

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### 25. Remuneration of councillors (continued)

- -

Conditions still to be met - remain liabilities (see note 16).

The Department of Energy, Eskom and the South African Local Government Association briefed the committee on where the Intergrated Electrification Programme stood currently, the challenges it faced as well as the challenges specific to municipalities.

### Water Services Infrastructure Grant 8

|   |              |                  |
|---|--------------|------------------|
| Balance unspent at beginning of year    | 7,053,987    | 11,140,957       |
| Current-year receipts                   | 20,000,000   | 85,000,000       |
| Conditions met - transferred to revenue | (20,000,000) | (77,946,013)     |
| Repaid during the year                  | (7,053,987)  | (11,140,957)     |
|   | -            | <b>7,053,987</b> |

Conditions still to be met - remain liabilities (see note 16).

### Provincial Treasury Grant

|   |                |   |
|---|----------------|---|
| Current-year receipts                   | 7,000,000      | - |
| Conditions met - transferred to revenue | (6,418,067)    | - |
|   | <b>581,933</b> | - |

Conditions still to be met - remain liabilities (see note 16).

An amount of R3,500,000 is meant to assist in Road maintenance and the balance of R3,500,000 is meant to assist in Data cleansing of the municipality.

### 26. Public contributions and donations

|                       |                  |                  |
|-----------------------|------------------|------------------|
| Donation of Statue    | -                | 2,860,000        |
| Donation of boreholes | 1,500,000        | 3,103,500        |
|                       | <b>1,500,000</b> | <b>5,963,500</b> |

Conditions still to be met - remain liabilities (see note 16)

The donation for R2,860,000 is for the Saul Mkhize Statue which was constructed by the Department of Culture. The donation of R3,103,500 is for the boreholes from the Department of Human Settlement.

### 27. Fines, Penalties and Forfeits

|                           |                  |                  |
|---------------------------|------------------|------------------|
| Illegal Connections Fines | 386,089          | 68,176           |
| Overdue Books Fines       | -                | 464              |
| Court Traffic Fines       | 14,550           | 9,451            |
| Municipal Traffic Fines   | 5,743,000        | 6,015,772        |
|                           | <b>6,143,639</b> | <b>6,093,863</b> |

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

| Figures in Rand  | 2023               | 2022               |
|--|--------------------|--------------------|
| <b>28. Employee related costs</b>                                  |                    |                    |
| Basic  | 140,369,310        | 137,959,123        |
| Bonus  | 11,551,572         | 10,777,467         |
| Medical aid - company contributions                                | 10,757,686         | 9,226,951          |
| UIF  | 1,128,427          | 1,134,512          |
| Leave pay provision charge   | 991,808            | 1,783,755          |
| Defined contribution plans   | 27,554,861         | 24,140,859         |
| Travel, motor car, accommodation, subsistence and other allowances | 6,938,691          | 5,734,442          |
| Overtime payments  | 19,393,976         | 20,452,215         |
| Long-service awards  | 27,839             | 1,257,728          |
| Acting allowances  | 1,465,048          | 2,052,554          |
| Housing benefits and allowances                                    | 1,003,255          | 935,419            |
| Standby Allowances   | 12,017,525         | 11,686,076         |
| Subscriptions  | 65,560             | 33,493             |
|  | <b>233,265,558</b> | <b>227,174,594</b> |

### Remuneration of municipal manager

|   |                  |                  |
|---|------------------|------------------|
| Annual Remuneration                             | 1,045,889        | 845,416          |
| Car Allowance                                   | -                | 148,000          |
| Contributions to UIF, Medical and Pension Funds | 1,240            | 159,013          |
| Other allowances                                | -                | 18,792           |
| Leave pay                                       | -                | 378,113          |
| Annual bonus                                    | -                | 96,940           |
|   | <b>1,047,129</b> | <b>1,646,274</b> |

Mr MS Dlamini is the Acting Municipal Manager. He was appointed in February 2023. Before his appointment, Mr B. Maseko and Ms A Mthetwa acted in the position.

### Remuneration of chief finance officer

|   |                  |                  |
|---|------------------|------------------|
| Annual Remuneration                             | 988,994          | 496,473          |
| Car Allowance                                   | 240,000          | 220,000          |
| Contributions to UIF, Medical and Pension Funds | 121,343          | 126,306          |
| Other allowances                                | 19,200           | 17,600           |
| Annual bonus                                    | 18,052           | 118,464          |
| Leave Paid                                      | 8,920            | 172,380          |
|   | <b>1,396,509</b> | <b>1,151,223</b> |

Mr B. Maseko is the CFO and he served 12 months from July 2022 to June 2023.

### General Manager: Community Services)

|   |                |                |
|---|----------------|----------------|
| Annual Remuneration                             | 682,218        | 110,734        |
| Car Allowance                                   | 80,000         | 36,000         |
| Acting allowance                                | 13,259         | -              |
| Contributions to UIF, Medical and Pension Funds | 105,182        | 15,944         |
| Other allowances                                | -              | 4,800          |
| Annual bonus                                    | -              | 24,940         |
| Leave paid                                      | -              | 172,380        |
|   | <b>880,659</b> | <b>364,798</b> |

Ms A Mthetwa is the General Manager Community Services. She was appointed in September 2022.

### Corporate and human resources (corporate services)

# Mkhondo Local Municipality

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## Notes to the Annual Financial Statements

| Figures in Rand                                 | 2023 | 2022           |
|---|------|----------------|
| <b>28. Employee related costs (continued)</b>   |      |                |
| Annual Remuneration                             | -    | 530,354        |
| Car Allowance                                   | -    | 56,000         |
| Contributions to UIF, Medical and Pension Funds | -    | 105,860        |
| Other allowances                                | -    | 5,600          |
| Annual bonus                                    | -    | 74,819         |
|   | -    | <b>772,633</b> |

The General Manager Corporate Services position is currently vacant and occupied in an Acting capacity.

### General Manager Technical Services)

|   |               |                |
|---|---------------|----------------|
| Annual Remuneration                             | 65,335        | 453,052        |
| Car Allowance                                   | -             | 80,000         |
| Contributions to UIF, Medical and Pension Funds | 177           | 83,267         |
| Other allowances                                | -             | 38,400         |
| Annual bonus                                    | -             | 93,524         |
| Leave paid                                      | -             | 158,015        |
|   | <b>65,512</b> | <b>906,258</b> |

The position of General Manager Technical services was vacant during the year. The amount paid to the former General Manager Ms Z Lugongolo was for the back pay on Upper Limits.

### General Manager Planning and Development

|   |                |                  |
|---|----------------|------------------|
| Annual Remuneration                             | 244,186        | 667,405          |
| Car Allowance                                   | 11,205         | 134,465          |
| Contributions to UIF, Medical and Pension Funds | 11,483         | 135,894          |
| Other allowances                                | 16,611         | 19,200           |
| Annual bonus                                    | 6,235          | 74,819           |
| Leave paid                                      | 172,380        | -                |
|   | <b>462,100</b> | <b>1,031,783</b> |

The General Manager Planning and Development Mr L. Motloutng served for one month of July 2022.

### Total Employee costs

|                                 |                    |                    |
|---------------------------------|--------------------|--------------------|
| General Managers                | 3,851,909          | 5,872,969          |
| Employee costs - salaried staff | 233,465,558        | 227,174,594        |
|                                 | <b>237,317,467</b> | <b>233,047,563</b> |

### 29. Remuneration of councillors

|                 |                   |                   |
|-----------------|-------------------|-------------------|
| Executive Major | 989,613           | 593,262           |
| Chief Whip      | 765,226           | 577,502           |
| Speaker         | 798,435           | 481,232           |
| Councillors     | 13,278,368        | 13,800,981        |
|                 | <b>15,831,642</b> | <b>15,452,977</b> |

### 30. Depreciation and amortisation

|                               |                   |                   |
|-------------------------------|-------------------|-------------------|
| Property, plant and equipment | 85,517,261        | 91,319,780        |
| Investment property           | 494,763           | 494,764           |
|                               | <b>86,012,024</b> | <b>91,814,544</b> |

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

| Figures in Rand                                 | 2023               | 2022               |
|---|--------------------|--------------------|
| <b>31. Impairment loss</b>                      |                    |                    |
| <b>Impairments</b>                              |                    |                    |
| Property, plant and equipment                   | 34,371,168         | 10,164,474         |
| <b>32. Finance costs</b>                        |                    |                    |
| Trade and other payables                        | 51,771,758         | 31,087,674         |
| Finance leases                                  | -                  | 5,084              |
| Other interest paid                             | 2,872,056          | 2,682,657          |
|   | <b>54,643,814</b>  | <b>33,775,415</b>  |
| <b>33. Lease rentals on operating lease</b>     |                    |                    |
| <b>Lease rentals on operating lease - Other</b> |                    |                    |
| Contractual amounts                             | 301,454            | 798,395            |
| <b>34. Debt impairment</b>                      |                    |                    |
| Debt impairment - consumer debtors              | 103,216,174        | 52,975,377         |
| Debt impairment- Traffic fines                  | 2,827,753          | 6,062,254          |
|   | <b>106,043,927</b> | <b>59,037,631</b>  |
| <b>35. Bulk purchases</b>                       |                    |                    |
| Electricity - Eskom                             | 146,655,499        | 151,442,574        |
| Water   | -                  | 10,063,189         |
|   | <b>146,655,499</b> | <b>161,505,763</b> |
| <b>36. Contracted services</b>                  |                    |                    |
| <b>Outsourced Services</b>                      |                    |                    |
| Administrative and Support Staff                | 28,363             | 479,248            |
| Burial Services                                 | 32,500             | -                  |
| Business and Advisory                           | 15,695,027         | 16,214,644         |
| Hygiene Services                                | 971,155            | 429,692            |
| Professional Staff                              | 446,235            | 284,074            |
| Refuse Removal                                  | -                  | 108,150            |
| Security Services                               | 34,118,033         | 29,514,623         |
| <b>Consultants and Professional Services</b>    |                    |                    |
| Business and Advisory                           | -                  | 50,811             |
| Infrastructure and Planning                     | -                  | 715,048            |
| Laboratory Services                             | 25,925             | 61,484             |
| Legal Cost                                      | 4,727,979          | 4,086,950          |
| <b>Contractors</b>                              |                    |                    |
| Catering Services                               | 1,946,845          | 2,402,420          |
| Electrical                                      | 10,336,219         | 373,833            |
| Event Promoters                                 | 8,940              | -                  |
| Maintenance of Buildings and Facilities         | 932,114            | 1,648,915          |
| Maintenance of Equipment                        | 11,024,354         | 18,576,166         |
| Maintenance of Unspecified Assets               | 14,298,935         | 14,332,154         |
| Traffic and Street Lights                       | 56,854             | 361,483            |
| Sports and Recreation                           | -                  | 58,800             |
| Forestry  | 7,613,128          | 1,045,390          |

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

| Figures in Rand  | 2023               | 2022               |
|--|--------------------|--------------------|
| <b>36. Contracted services (continued)</b>                                   |                    |                    |
|  | <b>102,262,606</b> | <b>90,743,885</b>  |
| <b>37. Transfer and subsidies</b>  |                    |                    |
| <b>Other subsidies</b>   |                    |                    |
| Equitable share  | 9,612,340          | 7,217,305          |
| <b>38. Other revenue</b>   |                    |                    |
| Other income - (rollup)  | 2,069,884          | 2,419,042          |
| <b>39. Auditors' remuneration</b>  |                    |                    |
| Fees   | 7,827,796          | 6,083,968          |
| <b>40. General expenses</b>  |                    |                    |
| Advertising  | 1,384,546          | 2,037,543          |
| Auditors remuneration  | 7,827,796          | 6,083,968          |
| Bank charges   | 910,979            | 872,461            |
| Commission paid  | 95,696             | 168,456            |
| Consumables  | 59,863,786         | 63,782,165         |
| Discount allowed   | 88,480             | 3,747              |
| Hire   | 3,073,377          | 992,773            |
| Insurance  | 5,122,913          | 4,289,303          |
| Community development and training   | 1,848,815          | 1,951,733          |
| IT expenses  | 1,975,220          | 1,562,000          |
| Promotions and sponsorships  | 18,800             | 548,140            |
| Levies   | 2,138,396          | 1,881,051          |
| Printing and stationery  | 268,142            | -                  |
| Protective clothing  | 726,951            | 3,269,536          |
| Subscriptions and membership fees  | 2,842,300          | 2,211,866          |
| Telephone and fax  | 10,833,604         | 19,240,284         |
| Training   | 3,697,488          | 3,701,766          |
| Travel - local   | 6,292,061          | 9,068,106          |
| Utilities - Other  | 3,205,681          | 2,688,783          |
| Other expenses   | 459,347            | 226,050            |
|  | <b>112,674,378</b> | <b>124,579,731</b> |
| <b>41. Operating deficit</b>   |                    |                    |
| Operating deficit for the year is stated after accounting for the following: |                    |                    |
| <b>Operating lease charges</b>   |                    |                    |
| Lease rentals on operating lease - Other                                     |                    |                    |
| • Contractual amounts  | 301,454            | 798,395            |
| Loss on sale of property, plant and equipment                                | (7,370,688)        | (19,882,176)       |
| Loss on sale of investment property  | -                  | (12,822)           |
| Impairment on property, plant and equipment                                  | 34,371,168         | 10,164,474         |
| Depreciation on property, plant and equipment                                | 85,517,261         | 91,319,780         |
| Depreciation on investment property  | 494,763            | 494,764            |
| Employee costs   | 253,149,109        | 248,500,540        |

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

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| Figures in Rand  | 2023              | 2022             |
|--|-------------------|------------------|
| <b>42. Fair value adjustments</b>                          |                   |                  |
| Biological assets - (Fair value model)                     | 27,381,599        | 6,257,865        |
| Other financial assets                                     |                   |                  |
| • Other financial assets (Designated as at FV through P&L) | 34,701            | 13,408           |
|  | <b>27,416,300</b> | <b>6,271,273</b> |

### 43. New standards and interpretations

#### 43.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

| Standard/ Interpretation: | Effective date:<br>Years beginning on or<br>after | Expected impact: |
|---------------------------|---|------------------|
|---------------------------|---|------------------|

#### 43.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 1 July, 2023 or later periods:

| Standard/ Interpretation:                               | Effective date:<br>Years beginning on or<br>after | Expected impact:                         |
|---|---|--|
| • iGRAP 21: The Effect of Past Decisions on Materiality | 1 April, 2023                                     | Unlikely there will be a material impact |

### 44. Construction contracts and receivables

Advances received in excess of work completed are included in trade and other payables.

At 30 June, 2023, retention of contracts in progress are 993,043 (2022: -).

At 1 July, 2023, contract debtors of - (2022: -) are due for settlement after more than 12 months.

### 45. Interest from non-exchange receivables

|                           |            |   |
|---------------------------|------------|---|
| interest - Property rates | 11,746,198 | - |
|---------------------------|------------|---|

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Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

| Figures in Rand  | 2023               | 2022               |
|--|--------------------|--------------------|
| <b>46. Cash generated from operations</b>              |                    |                    |
| Surplus/(deficit)                                      | (109,717,551)      | (35,591,839)       |
| <b>Adjustments for:</b>                                |                    |                    |
| Depreciation and amortisation                          | 86,012,024         | 91,814,544         |
| Sale of assets and liabilities                         | 7,370,688          | 19,894,998         |
| Fair value adjustments                                 | (27,416,300)       | (6,271,273)        |
| Impairment deficit                                     | 34,371,168         | 10,164,474         |
| Debt impairment  | 106,043,927        | 59,037,631         |
| Bad debts written off                                  | 350,601            | 357,142            |
| Movements in retirement benefit assets and liabilities | (1,417,000)        | (625,000)          |
| Movements in provisions                                | 3,481,057          | (1,286,342)        |
| Inventory losses or write-downs                        | 6,393,884          | (671,092)          |
| Non-cash donations and other in-kind benefits          | -                  | (5,960,502)        |
| Assets expensed  | 2,622,390          | 3,961,134          |
| <b>Changes in working capital:</b>                     |                    |                    |
| Inventories  | (15,967,706)       | 12,635,815         |
| Receivables from exchange transactions                 | (761)              | (64,031)           |
| Consumer debtors                                       | (112,313,436)      | (103,638,422)      |
| Other receivables from non-exchange transactions       | (5,363,453)        | (5,180,631)        |
| Payables from exchange transactions                    | 139,813,396        | 172,042,354        |
| VAT Receivable   | (6,661,611)        | (7,198,029)        |
| Unspent conditional grants and receipts                | 263,776            | (16,207,966)       |
| Consumer deposits                                      | (53,992)           | 142,180            |
|  | <b>107,811,101</b> | <b>187,355,145</b> |

## 47. Financial instruments disclosure

### Categories of financial instruments

#### 2023

#### Financial assets

|                                       | At fair value  | At amortised cost | Total             |
|---------------------------------------|----------------|-------------------|-------------------|
| Other financial assets                | 528,292        | -                 | 528,292           |
| Receivable from exchange transactions | -              | 980,151           | 980,151           |
| Consumer debtors                      | -              | 54,622,250        | 54,622,250        |
| Cash and cash equivalents             | -              | 10,992,831        | 10,992,831        |
| Other financial assets                | -              | 50,936            | 50,936            |
|                                       | <b>528,292</b> | <b>66,646,168</b> | <b>67,174,460</b> |

#### Financial liabilities

|                                     | At amortised cost  | Total              |
|-------------------------------------|--------------------|--------------------|
| Payables from exchange transactions | 828,134,109        | 828,134,109        |
| Consumer deposits                   | 4,108,797          | 4,108,797          |
| Unspent conditional grant           | 7,317,763          | 7,317,763          |
|                                     | <b>839,560,669</b> | <b>839,560,669</b> |

#### 2022

#### Financial assets

|  | At fair value | At amortised cost | Total |
|--|---------------|-------------------|-------|
|--|---------------|-------------------|-------|

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|---|----------------|-------------------|-------------------|
| <b>47. Financial instruments disclosure (continued)</b> |                |                   |                   |
| Other financial assets                                  | 495,360        | -                 | 495,360           |
| Receivables from exchange transactions                  | -              | 979,390           | 979,390           |
| Consumer debtors  | -              | 56,875,569        | 56,875,569        |
| Other financial assets                                  | -              | 48,047            | 48,047            |
| Cash and cash equivalents                               | -              | 4,186,141         | 4,186,141         |
|   | <b>495,360</b> | <b>62,089,147</b> | <b>62,584,507</b> |

### Financial liabilities

|                            | At amortised cost  | Total              |
|----------------------------|--------------------|--------------------|
| Trade payables             | 688,320,711        | 688,320,711        |
| Consumer deposits          | 4,162,789          | 4,162,789          |
| Unspent conditional grants | 7,053,987          | 7,053,987          |
|                            | <b>699,537,487</b> | <b>699,537,487</b> |

### Financial Instruments at Fair Value

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Municipality is the current bid price. The fair value of financial instruments that are not traded in an active market (for example over-the-counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The municipality held some shares with Old Mutual. Quoted prices were used to value the shares as at 30 June 2023.

### 48. Commitments

#### Authorised capital expenditure

##### Already contracted for but not provided for

|                                 |                   |                   |
|---------------------------------|-------------------|-------------------|
| • Property, plant and equipment | 38,004,298        | 70,848,058        |
| • Community Assets              | 2,094,489         | 2,094,489         |
|                                 | <b>40,098,787</b> | <b>72,942,547</b> |

##### Total capital commitments

|   |            |            |
|---|------------|------------|
| Already contracted for but not provided for | 40,098,787 | 72,942,547 |
|---|------------|------------|

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, and Transfers from National Treasury.

# Mkhondo Local Municipality

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### 49. Contingencies

Contingencies as at 30 June 2023

| NAME OF CLAIMANT  | RESPONSIBLE DEPARTMENT INTERNALLY | SUMMARY OF CASE AND PROGRESS   | RESPONSIBLE LAW FIRM OR APPOINTED FIRM | FILE NUMBER    | AMOUNT CLAIMED                                       | COMMENTS  |
|---|-----------------------------------|--|--|----------------|--|---|
| 1. Bareki consulting (Pty)Ltd                                   | Level Services Division           | The plaintiff is claiming damages for work done, They compiled a supply chain management system and they were not paid for the work done | TMN KGOMO & Associates Inc.            | 19148/2011/WDM | Claim A<br>R 761 383.10<br>Claim B<br>R 1 169 904.48 | The pleadings have closed in the matter. However, we have received notice of withdrawal as attorneys of record on the 12 <sup>th</sup> of December 2022.  |
| 2. Owethu Mkhondo cc Development of middle class houses Trading | Legal Service Division            | The plaintiff is suing the municipality the sum of R21 277 570.63  | TMN KGOMO & Associates Inc.            | 46047/2014/WDM | R21 277 570.63                                       | The Pleadings have been closed in the matter. The matter was certified trial ready on the 6 March 2023 and set down on the 14 May 2023 Pretoria High Court.   |
| 3. Pamoja Technologies  | Legal Service Division            | The plaintiff is suing the municipality the sum of R1 396 370.67   | TMN KGOMO & Associates Inc.            | 15597/11/WDM   | R1 396 370.67  | The plaintiff is suing the Municipality for alleged breach of contract. The plaintiff has abandoned the claim and there is no attorney of record. We have issued an application to dismiss the plaintiff action.  |
| 4. Busamasi investment cc                                       | Legal Service Division            | A claim was instituted by the plaintiff following an alleged breach of contract by the municipality                                      | TMN KGOMO & Associates Inc.            | 47483/2011/WDM | R558 842.62  | The plaintiff had abandoned their claim and there is no attorney of record. Application to dismiss the claim was issued early this year and the sheriff is unable to serve the documents due to the fact that the plaintiff no longer exists. Application to dismiss the application has been filed 17 May 2024 |

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

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### 49. Contingencies (continued)

|                                    |                         |   |                             |                |  |   |
|------------------------------------|-------------------------|---|-----------------------------|----------------|--|---|
| 5. Rethuseng Live Line Services cc | Legal Service Division  | Summons were issued by the plaintiff against two defendants. The municipality is cited as the second defendant. The plaintiff is claiming from the first defendant an amount of R 4 846 015.42 and alternatively R3 249 043.64 from the second defendant. | TMN KGOMO & Associates Inc. | 40779/2014/WDM | R4 846 015.42<br><br>Alternatively R3 249 043.64 | Pleadings have been closed in this matter. The application to set aside the findings of AOS Consulting Engineers was granted during June 2021. We received confirmation from the engineering company that they have inspected the Piet Retief site and we are expecting their report. |
| 6. SCF Engineers/Municipality      | Legal services Division | The Municipality received summons claiming R2433 900.00 in respect of professional engineering services   | Dolamo Attorneys            | 521/2022 BSX   | R2433 900.00                                     | Our attorney has entered a Notice of intention to defend and served same accordingly.   |
| 7. Concert Masango and 2 others    | Legal Services Division | The municipality has lodged a review application in the Johannesburg labour court to have any   | TMN Kgomo & associates      | 2020 /BSX      | R105 030.24                                      | Attorney received instructions from the Municipality to file a Notice of withdrawal and same was done on the 5 <sup>th</sup> July 2022. On the 27 <sup>th</sup> day of July they were instructed to proceed further with review application. Attorney has filed our papers.           |
| 8. Mr L.P De Beer                  | Legal services Division | The plaintiff has served summons against the municipality that he has incurred damages due motor vehicle accident as a result of the road and storm water drain where he was travelling   | Mohlala Attonerys           | 20751/2015/WDM | R470 000.00                                      | The Applicant/Plaintiff has filed an application for joinder of MEC for roads and transport and the said application is being opposed by the office of the state attorney   |

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

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### 49. Contingencies (continued)

|                               |                         |  |                                 |               |   |   |
|-------------------------------|-------------------------|--|---------------------------------|---------------|---|---|
| 9. Bicacon (Pty) Ltd          | Legal services Division | The municipality received summons from Bicacon (Pty)Ltd seeking relief in R5 319 140.62 as the plaintiff are claiming that the municipality unlawfully terminated their contract .the plaintiffs were appointed to provide Engineering consulting services for the construction of Driefontein to Iswepe and Haartebeesfontein water Bulk line by Mega, which ceded their rights to the municipality | Mohlala Attorneys               | 87155/15 /WDM | R 5 319 140.62  | Plaintiff in the main action, filed for leave to appeal judgement and order handed down on the 8 October 2020 in Mbombela High Court.   |
| 10. EPH Security And services | Legal services Division | The municipality received notice that summons claiming an amount of R5 277 870.57 for the entire contract and R1 642 267.76  | Mthunzi Madonsela Attorneys     | 331/2017 /BSX | Claim 1.R 5 277 870.57<br><br>The municipality was ordered to pay R1 642 267.76 | The plaintiff filed an Application for leave to appeal on the judgement   |
| 11. M J S Mabuza              | Legal services Division | The municipality received notice and summons claiming an amount of R2.2 Million to compensate the claimant as the results of loses suffered as the results of his contract being terminated  | Mthunzi Madonsela Attorneys     | 2017/BS X     | R2.2 Million  | This matter was case managed in 2022 and was set down for trial in January 2023. Thereafter the matter was removed by the plaintiff before hearing. We anticipate the re-enrolment. |
| 12. Ideal prepaid (Pty)Ltd    | Legal services Division | Ideal Prepaid has instituted legal actions against the municipality after the municipality terminated their contract and filed the reviewed application  | Madonsela Mthunzi inc Attorneys | 732/2018 /BSX | R32 089 340.00  | A Notice of Intention to Defend has been filed on behalf of the Municipality.   |

# Mkhondo Local Municipality

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### 49. Contingencies (continued)

|                                       |                         |  |                             |               |             |  |
|---------------------------------------|-------------------------|--|-----------------------------|---------------|-------------|--|
| 13.Mr Jacoba/Municipality             | Legal services Division | The municipality received summons claiming R8 568.90. Plaintiff hit the pothole and his vehicle got damaged  | Madonsela Mthunzi Attorneys | 230/2017 /BSX | R8 568.90   | Plaintiff sent an offer of settlement to the Municipality and advised that he does not wish to proceed with trial. Municipality repudiated Plaintiff's offer of settlement on the basis that the D526 road between Mkhondo and Emahlabathini does not fall within the Municipality's jurisdiction and advised that the plaintiff's offer to settle is addressed to the Department of Public Works, Roads and Plaintiff is required to tender costs to the Municipality. Awaiting the final account |
| 14.Mr Solomon Jabulani Gomu Mnisi     | Legal services Division | The Mkhondo local municipality received summons from the plaintiff alleging that he had been arrested by traffic officers of the municipality ,He is therefore claiming an amount of R850 000.00 | Mohlala Attorneys           | 8550/2017/BSX | R850 000.00 | The Defendant's special plea and plea has been served and filed accordingly and the matter is currently at discovery stage.  |
| 15.Mr Voster Andries Wilhelmus Jacobs | Legal services Division | The plaintiff is suing the municipality in an amount of R 25 000. For once off gratuity equal to three months pensionable salary, the plaintiff was a counselor at the municipality.             | Mohlala Attorneys           | 367/2015 /BSX | R25 000     | The Plaintiff's attorney has since withdrawn from the matter. However, the matter is still pending. We intend to instruct the attorney of make the application to dismiss the case.  |

# Mkhondo Local Municipality

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### 49. Contingencies (continued)

|  |                         |   |                             |               |  |   |
|--|-------------------------|---|-----------------------------|---------------|--|---|
| 16.KVN Business Services                     | Legal services Division | Plaintiff is suing the municipality for R 4 633 062.50 plus interest at the rate of 10.25% per annum from the date of service of summons to date of payment in respect of the breach of contract between the parties and the matter is before the regional Division of Mpumalanga held at Elukwatini. | Mohlala attorneys           | 01/2020/BSX   | R4 633 062.50                                | Trial was held on matter and judgement was granted in favour of plaintiff. The Municipality filed an appeal.  |
| 17.Jabulani Gama                             | Legal services Division | The plaintiff instituted action proceedings against the municipality for damaged incurred by the plaintiff after hitting a pothole.   | Madonsela Mthunzi Attorneys | 26/2019/BSX   | R85 852.83                                   | The Plaintiff in his summons alleges that it has suffered patrimonial loss in an amount of R85 852.83. The Municipality denies the liability since the road does not fall within the municipal jurisdiction of the Municipality.  |
| 18.Graftcorn International (Pty)Ltd          | Legal services Division | The municipality received summons claiming R 1 129 421.34 for the work done   | Dalomo Attorneys            | 3397/2020/BSX | R1 129 421.34                                | The attorney has filed the intention to defend.   |
| 19. Zarafusion Pty Ltd                       | Legal services Division | The municipality received summons claiming R5 450 156.34 for the work done, fencing electrical and main connections road works and sewerage upgrade.  | TMN Kgomo                   | 2039/2020/BSX | R5450 156.34<br>alternatively R 4 298 540.54 | The Municipality's plea was served during October 2021.The Pleadings have closed and parties have since exchanged their discovery affidavits. The Municipality discovery affidavit was served in February 2023.The Plaintiff as dominis litis have not taken any further steps since. |
| 20. Mpfumelelo business Enterprise (PTY) LTD | Legal services Division | The Municipality received summons from Plaintiff claiming R3 174 187.49 of unpaid invoices.   | Dolamo Attorneys            | 1347/22 BSX   | R3 174 187.49                                | Notice of intention to defend was filed and plea was served accordingly.  |

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

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### 49. Contingencies (continued)

|                                  |                         |  |                             |           |                      |  |
|----------------------------------|-------------------------|--|-----------------------------|-----------|----------------------|--|
| 21. Agri Piet Retief farmers     | Legal services Division | The Municipality received a complaint from Agri Piet Retief regarding on-compliance with MPRA  | Madonsela Mthunzi attorneys | 2021/BS X | Specific Performance | The Municipal should embark on an internal process to write off the unpaid rates as irrecoverable since a court will not enforce payment of rates which were not validly imposed. Any claim by a ratepayer against the Municipality before 2018 has prescribed in terms of s11 (d) of the Prescription Act thus, |
| 22. Eskom Electricity matter     | Legal services Division | The Municipality received notice of motion from Eskom. The gravamen of the application is to enforce the court order granted on the 19 July 2021. Under case number 973/2021.                          | Mohlala Attorney            |           | R174 162 510.60      | We have filed our answering affidavit we opposing the application. We are intending to bring application for the rescission of judgement.  |
| 23. Registration sold properties | Legal services Division | The Municipality appointed a Conveyancer to assist in registering the individual portions in Piet Retief township erf 326. This exercise will assist the owner to transfer properties into their names | Kgomo And Sibande           | 2022/BS X | Specific performance | The matter has been referred to the attorney and registration documents have been prepared and attorney has lodged the application with Registrar of Deeds.  |
| 24. Registration sold properties | Legal services Division | The Municipality appointed a Conveyancer to assist in registering the individual portions in Piet Retief township erf 326. This exercise will assist the owner to transfer properties into their names | Kgomo And Sibande           | 2022/BS X | Specific performance | The matter has been referred to the attorney and registration documents have been prepared and attorney has lodged the application with Registrar of Deeds.  |

# Mkhondo Local Municipality

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### 49. Contingencies (continued)

|                                      |                         |  |                     |       |                       |   |
|--------------------------------------|-------------------------|--|---------------------|-------|-----------------------|---|
| 25.Three Cllr //Mkhondo Council;     | Legal services Division | The Municipality received the notice of Motion with Part A is urgent interdicted and prohibited from implementing the adoption of motion of no confidence and Part B   | Mohlala Attorneys   | 22023 | Specific performanc e | The matter has been referred to the attorney to file on behalf of the municipality.   |
| 26.Mkhondo vs Normandien             | Legal services Division | The Municipality entered into the agreement with Nomandien Farms in 2017.The sale was for the sale of 140 hectares Municipal Mature pine plantations. According to the agreement the Normandien was expected to replant the fell compartments, however Normandien has not replanted despite numerous request | Mohla and Attorneys | 2023  | Specific performanc e | The matter has been referred to the attorney to compel Normandien to replant and also to assit us to to claim for the years that the faiked to replant. |
| 27.Mkhondo vs Thabede                | Legal services Division | The Municipality took the decision that the matter of Mr Thabede be referred to the labour court.  | Mohla and Attorneys | 2023  | Labour matter         | Review application has been filed accordngy and the application is apposed.   |
| 28.Case of 11 councillors vs Mkhondo | Legal services Division | Applicants approached the High Court of South Africa Mpumalanga Division Middleburg (Local Seat) with an application, by way of a Notice of Motion   | Mohla and Attorneys | 2023  | Specific performanc e | The matter has been referred to the attorney to assist with pleadingbin the matter and claim  |

### Contingent assets

The Municipality is suing Ideal Prepaid for Electricity Prepaid sales sold through Ideal Prepaid vendors but not remitted to the Municipality. The amount of such revenue is unknwn as the Servive Provider refused to furnish the Municipality with records of sales made during the year. According to our legal attorneys, they have made an application compelling Ideals prepaid to furnish us with statements to enable us to quantify losses and recover such monies.

The Municipality is suing Shatadi Auctioneers for the recovery of monies which were never received by the Municipality after an auction was held. The amount claimed is R1 474 705.84. The Municipality had sent a letter of demand and the Defendant has confirmed its indebtedness to the Municipality. A settlement agreement was reached with the Defendant in July 2018 wherein the Defendant agreed to pay in three instalments starting from August 2018. The Defendant did not honour the agreement and we proceeded to issue summons and matter is defended. The matter is handled by Mthunzi Madonsela Attorneys.

# Mkhondo Local Municipality

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|-----------------|------|------|
|-----------------|------|------|

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### 50. Related parties

#### Relationships

Accounting Officer

Mr M Dlamini

Mr B Maseko

Ms A Mthetwa

Mr C. Munzhelele

Mr. S. Nkosi

Ms W. Mahlangu

Mrs B. Nxumalo

Refer to accounting officers' report note

Acting Municipal Manager 28

Chief Financial Officer 28

General Manager Community Services 28

Acting Chief Financial Officer

Acting General Manager Technical Services

Acting General Manager Planning and Economic  
Development

Acting General Manager Corporate Services

#### Remuneration of management

# Mkhondo Local Municipality

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### 50. Related parties (continued)

#### Management class: Councillors

#### 2023

| Name        | Basic salary | Other benefits received | Total      |
|-------------|--------------|-------------------------|------------|
| Councillors | 13,237,464   | 2,594,178               | 15,831,642 |

#### 2022

| Name        | Basic salary | Other benefits received | Total      |
|-------------|--------------|-------------------------|------------|
| Councillors | 12,060,298   | 3,392,679               | 15,452,977 |

### Additional information

The salaries, allowances and benefits of councillors are within the upper limits of the framework envisaged in section 219 of the Constitution of South Africa.

The table below gives the detailed breakdown of councillors salaries

| Name                       | Basic salary | Cellphone allowance & Data | Housing allowance | Pension & Medical Aid | Travelling Allowance | Grand Total |
|----------------------------|--------------|----------------------------|-------------------|-----------------------|----------------------|-------------|
| Cllr. Mthokozisi Simelane  | 592,072.03   | 38,700.00                  | -                 | 45,158.95             | -                    | 675,930.98  |
| Cllr. Ngelosi Ndhlovu      | 508,571.37   | 39,000.00                  | -                 | 67,215.76             | -                    | 614,787.13  |
| Cllr. Malusi Dlamini       | 523,953.57   | 38,700.00                  | -                 | 37,821.10             | -                    | 600,474.67  |
| Cllr. Siphesihle Mkhwanazi | 510,796.72   | 38,400.00                  | -                 | 36,535.96             | -                    | 585,732.68  |
| Cllr. Nozibele Zulu        | 500,820.83   | 37,200.00                  | -                 | 35,990.31             | -                    | 574,011.14  |
| Cllr. Walter Vilakazi      | 494,311.43   | 38,700.00                  | -                 | 34,982.21             | -                    | 567,993.64  |
| Cllr. Mduduzi Ngwenya      | 465,878.90   | 37,200.00                  | -                 | 33,021.56             | -                    | 536,100.46  |
| Cllr. Johanna Brussow      | 364,364.97   | 37,200.00                  | 8,054.40          | 66,280.84             | 57,120.24            | 533,020.45  |
| Cllr. Thokozani Manana     | 447,069.64   | 37,200.00                  | -                 | 31,692.46             | -                    | 515,962.10  |
| Cllr. Duduzile Thwala      | 371,354.04   | 37,200.00                  | 8,054.40          | 26,016.27             | 73,304.28            | 515,928.99  |
| Cllr. Thembisile Khumalo   | 468,890.73   | 37,200.00                  | -                 | -                     | -                    | 506,090.73  |
| Cllr. Sindisiwe Sibiya     | 354,581.83   | 35,100.00                  | -                 | 25,157.25             | -                    | 414,839.08  |
| Cllr. Dumisani Ntshakala   | 358,092.54   | 29,400.00                  | -                 | 25,686.42             | -                    | 413,178.96  |
| Cllr. Samuel Methula       | 285,309.66   | 37,200.00                  | 8,054.40          | -                     | 57,120.24            | 387,684.30  |
| Cllr. Jabulani Sibiya      | 323,919.00   | 38,700.00                  | -                 | 23,370.21             | -                    | 385,989.21  |
| Cllr. Timothy Mtshali      | 313,863.99   | 38,700.00                  | -                 | 22,480.21             | -                    | 375,044.20  |
| Cllr. Mbongiseni Ngwenya   | 313,860.76   | 38,700.00                  | -                 | 22,480.21             | -                    | 375,040.97  |
| Cllr. Johnson Nkosi        | 313,860.76   | 38,700.00                  | -                 | 22,480.21             | -                    | 375,040.97  |
| Cllr. Maureen Thomo        | 313,860.76   | 38,700.00                  | -                 | 22,480.21             | -                    | 375,040.97  |
| Cllr. Mthandeni Mkhabela   | 313,085.41   | 21,945.46                  | -                 | 21,775.58             | -                    | 356,806.45  |
| Cllr. Heiz Weber           | 300,382.41   | 38,700.00                  | -                 | -                     | -                    | 339,082.41  |
| Cllr. Bhekisisa Dlamini    | 279,900.33   | 38,700.00                  | -                 | 20,080.46             | -                    | 338,680.79  |
| Cllr. Nhlanhla Gwebu       | 279,900.33   | 38,700.00                  | -                 | 20,080.46             | -                    | 338,680.79  |
| Cllr. Vusumuzi Hlophe      | 279,900.33   | 38,700.00                  | -                 | 20,080.46             | -                    | 338,680.79  |
| Cllr. Lindiwe Ngubeni      | 279,900.33   | 38,700.00                  | -                 | 20,080.46             | -                    | 338,680.79  |
| Cllr. Dudu Nkosi           | 279,900.33   | 38,700.00                  | -                 | 20,080.46             | -                    | 338,680.79  |
| Cllr. Esther Nkosi         | 279,900.33   | 38,700.00                  | -                 | 20,080.46             | -                    | 338,680.79  |

# Mkhondo Local Municipality

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| Figures in Rand                        |                      |                     | 2023             |                   |                   | 2022                 |
|--|----------------------|---------------------|------------------|-------------------|-------------------|----------------------|
| <b>50. Related parties (continued)</b> |                      |                     |                  |                   |                   |                      |
| Cllr. Themba Tshandu                   | 279,900.33           | 38,700.00           | -                | 20,080.46         | -                 | 338,680.79           |
| Cllr. Siduduzi Thwala                  | 287,600.28           | 20,745.46           | -                | 19,453.18         | -                 | 327,798.92           |
| Cllr. Thokozani Zulu                   | 228,626.51           | 7,247.76            | -                | 15,515.44         | -                 | 251,389.71           |
| Cllr. Sabelo Shoba                     | 200,823.36           | 23,800.00           | -                | 14,257.26         | -                 | 238,880.62           |
| Cllr. Thembi Qwabi                     | 182,718.46           | 21,945.46           | -                | 12,563.33         | -                 | 217,227.25           |
| Cllr. Nonhlanhla Mthethwa              | 182,185.19           | 21,945.46           | -                | 12,563.33         | -                 | 216,693.98           |
| Cllr. Goodness Gama                    | 169,962.34           | 7,247.76            | -                | 31,169.52         | -                 | 208,379.62           |
| Cllr. Mhlaliseni Yende                 | 189,317.98           | 7,247.76            | -                | 11,692.80         | -                 | 208,258.54           |
| Cllr. Busisiwe Khumalo                 | 169,238.25           | 18,118.18           | -                | 9,194.33          | -                 | 196,550.76           |
| Cllr. Mlamleli Mbata                   | 148,758.03           | 21,945.46           | -                | 10,163.58         | -                 | 180,867.07           |
| Cllr. Sbonelo Ntshangase               | 150,453.42           | 19,690.91           | -                | 9,916.88          | -                 | 180,061.21           |
| Cllr. Vusi Motha                       | 84,536.24            | 7,247.76            | -                | 31,471.62         | -                 | 123,255.62           |
| Cllr. Fikile Mthethwa                  | 107,591.45           | 7,247.76            | -                | 6,331.68          | -                 | 121,170.89           |
| Cllr. Muzi Manyathi                    | 98,852.65            | 12,004.55           | -                | 6,578.36          | -                 | 117,435.56           |
| Cllr. Bongani Mchunu                   | 103,552.14           | 7,247.76            | -                | 6,331.68          | -                 | 117,131.58           |
| Cllr. Eunice Shabangu                  | 97,934.99            | 11,500.00           | -                | 6,578.36          | -                 | 116,013.35           |
| Cllr. Philisiwe Sikhosana              | 97,934.99            | 11,500.00           | -                | 6,578.36          | -                 | 116,013.35           |
| Cllr. Dumisani Nkosi                   | 97,931.99            | 11,200.00           | -                | 6,578.36          | -                 | 115,710.35           |
| Cllr. Musa Lukhele                     | 66,131.82            | 10,200.00           | -                | 5,081.79          | -                 | 81,413.61            |
| Cllr. Bhekumuzi Maisela                | 66,131.82            | 10,200.00           | -                | 5,081.79          | -                 | 81,413.61            |
| Cllr. Nosipho Sangweni                 | 66,131.82            | 10,200.00           | -                | 5,081.79          | -                 | 81,413.61            |
| Cllr. Khanyisile Masondo               | 47,980.50            | 3,500.00            | 1,342.40         | 8,283.54          | -                 | 61,106.44            |
| Cllr. Rhee Hlatshwayo                  | 9,315.34             | (1,200.00)          | -                | -                 | -                 | 8,115.34             |
| Cllr. Themba Mafuyeka                  | 9,315.34             | (1,200.00)          | -                | -                 | -                 | 8,115.34             |
| Cllr. Jabulani Makhathini              | 9,315.34             | (1,200.00)          | -                | -                 | -                 | 8,115.34             |
| Cllr. Duduzile Ngobese                 | 9,315.34             | (1,200.00)          | -                | -                 | -                 | 8,115.34             |
| Cllr. Themba Nkosi                     | 9,315.34             | (1,200.00)          | -                | -                 | -                 | 8,115.34             |
| Cllr. Mfana Ntuli                      | 9,315.34             | (1,200.00)          | -                | -                 | -                 | 8,115.34             |
| Cllr. Zakhele Mnisi                    | 7,355.64             | (1,200.00)          | -                | -                 | -                 | 6,155.64             |
| Cllr. Sara Mathebula                   | 3,051.09             | (1,200.00)          | -                | -                 | -                 | 1,851.09             |
| Cllr. S'Bongiseni Bophela              | 3,050.72             | (1,200.00)          | -                | -                 | -                 | 1,850.72             |
| Cllr. Thandeka Hlatshwayo              | 3,050.72             | (1,200.00)          | -                | -                 | -                 | 1,850.72             |
| Cllr. Sihle Mahlobo                    | 3,050.72             | (1,200.00)          | -                | -                 | -                 | 1,850.72             |
| Cllr. Bong'Nkosi Mkhwanaz              | 3,050.72             | (1,200.00)          | -                | -                 | -                 | 1,850.72             |
| Cllr. Cynthia Mkhwanazi                | 3,050.72             | (1,200.00)          | -                | -                 | -                 | 1,850.72             |
| Cllr. Thulani Mncube                   | 3,050.72             | (1,200.00)          | -                | -                 | -                 | 1,850.72             |
| Cllr. Rachel Ngwenya                   | 3,050.72             | (1,200.00)          | -                | -                 | -                 | 1,850.72             |
| Cllr. Thembi Nkosi                     | 3,050.72             | (1,200.00)          | -                | -                 | -                 | 1,850.72             |
| Cllr. Phumula Thabede                  | 3,050.72             | (1,200.00)          | -                | -                 | -                 | 1,850.72             |
| Cllr. Busisiwe Vilakazi                | 3,050.72             | (1,200.00)          | -                | -                 | -                 | 1,850.72             |
| Cllr. Robert Wilson                    | 3,050.72             | (1,200.00)          | -                | -                 | -                 | 1,850.72             |
| Cllr. Sandile Yende                    | 3,050.72             | (1,200.00)          | -                | -                 | -                 | 1,850.72             |
| <b>Total</b>                           | <b>13,486,181.00</b> | <b>1,291,427.50</b> | <b>25,505.60</b> | <b>981,655.92</b> | <b>187,544.76</b> | <b>15,831,639.08</b> |

### 51. Prior period errors

Property, plant and equipment: The prior period error relates to depreciation and impairment of certain property plant and equipment which has been restated.

Prior period adjustments on payables relate to suppliers whose balances were overstated. The respective VAT on the invoices were respectively adjusted.

### 52. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

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|--|-------------|-------------------------------|----------------------------|----------------------|
| <b>52. Prior period errors (continued)</b> |             |                               |                            |                      |
| <b>Statement of financial position</b>     |             |                               |                            |                      |
| <b>2022</b>                                |             |                               |                            |                      |
|  | <b>Note</b> | <b>As previously reported</b> | <b>Correction of error</b> | <b>Restated</b>      |
| VAT Receivable                             |             | 6,616,405                     | (318,312)                  | 6,298,093            |
| Property Plant and Equipment               |             | 1,752,965,193                 | 49,095,490                 | 1,802,060,683        |
| Payables from exchange transactions        |             | (691,139,728)                 | 2,819,017                  | (688,320,711)        |
| Consumer deposits                          |             | (4,134,066)                   | (28,723)                   | (4,162,789)          |
| Accumulated surplus                        |             | (1,186,880,162)               | (51,567,472)               | (1,238,447,634)      |
|  |             | <b>(122,572,358)</b>          | <b>-</b>                   | <b>(122,572,358)</b> |

### Statement of financial performance

#### 2022

|                             |             |                               |                            |                          |                   |
|-----------------------------|-------------|-------------------------------|----------------------------|--------------------------|-------------------|
|                             | <b>Note</b> | <b>As previously reported</b> | <b>Correction of error</b> | <b>Re-classification</b> | <b>Restated</b>   |
| Service charges             |             | 213,931,496                   | -                          | (39,037)                 | 213,892,459       |
| Other income                |             | 2,380,004                     | -                          | 39,037                   | 2,419,041         |
| Depreciation                |             | (87,986,214)                  | (3,828,330)                | -                        | (91,814,544)      |
| Impairment loss             |             | (10,058,782)                  | (105,692)                  | -                        | (10,164,474)      |
| Contracted services         |             | (90,715,162)                  | (28,723)                   | -                        | (90,743,885)      |
| <b>Surplus for the year</b> |             | <b>27,551,342</b>             | <b>(3,962,745)</b>         | <b>-</b>                 | <b>23,588,597</b> |

### Change in accounting policy

No change in accounting policies occurred during the year under review.

### 53. Comparative figures

Certain comparative figures have been reclassified.

### 54. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Due to largely "non-trading nature" of activities and the way to which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IFRSs mainly apply. Generally, financial assets and liabilities are generated by day to day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Budget and Treasury Office monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by internal auditors on a continuous basis, and by external auditors annually. The Internal audit is responsible for initiating a control framework and monitoring and responding to potential risk, reports monthly to the municipality's audit committee, an independent body monitors the effectiveness of internal audit function. The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

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### 54. Risk management (continued)

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

Financial assets exposed to credit risk at year end were as follows:

| Financial instrument                       | 2023       | 2022       |
|--|------------|------------|
| Other financial assets                     | 579,228    | 543,407    |
| Receivables from non exchange transactions | 3,355,760  | 820,060    |
| Receivables from exchange transactions     | 980,151    | 979,390    |
| Consumer debtors                           | 73,341,945 | 75,873,499 |
| Cash and bank balances                     | 10,992,831 | 4,186,141  |

#### Market risk

##### Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

##### Cash flow interest rate risk

| Financial instrument                              | Current interest rate | Due in less than a year | Due in one to two years | Due in two to three years | Due in three to four years | Due after five years |
|---|-----------------------|-------------------------|-------------------------|---------------------------|----------------------------|----------------------|
| Trade and other receivables - normal credit terms | 11.75 %               | 980,151                 | -                       | -                         | -                          | -                    |
| Consumer debtors                                  | 11.75 %               | 73,341,945              | -                       | -                         | -                          | -                    |
| Cash in current banking institutions              | - %                   | 10,992,831              | -                       | -                         | -                          | -                    |
| Trade and other payables - extended credit terms  | 11.75 %               | (823,274,648)           | -                       | -                         | -                          | -                    |

### 55. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality. The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 56. Unauthorised, Irregular and Fruitless and Wasteful Expenditure

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

| Figures in Rand   | 2023               | 2022                 |
|---|--------------------|----------------------|
| <b>56. Unauthorised, Irregular and Fruitless and Wasteful Expenditure (continued)</b> |                    |                      |
| Unauthorised expenditure  | 161,114,830        | 970,950,105          |
| Fruitless and wasteful expenditure  | 51,771,758         | 76,870,840           |
| Irregular expenditure   | 51,708,060         | 132,072,825          |
| <b>Closing balance</b>  | <b>264,594,648</b> | <b>1,179,893,770</b> |

\*Refer to reconciling notes in the annual report

### 57. Unauthorised expenditure

|  |                    |                    |
|--|--------------------|--------------------|
| Opening balance as previously reported                   | 970,950,105        | 876,214,314        |
| Add: Unauthorised expenditure - current                  | 161,114,830        | 94,735,791         |
| Less: Amount written off- prioriod resolution 23/08/201A | (484,034,892)      | -                  |
| Less: Amount written off- prioriod resolution 20/12/442A | (486,915,213)      | -                  |
| <b>Closing balance</b>                                   | <b>161,114,830</b> | <b>970,950,105</b> |

The over expenditure incurred by municipal departments during the year is attributable to the following categories:

|          |                    |                   |
|----------|--------------------|-------------------|
| Non-cash | 103,438,245        | 7,897,853         |
| Cash     | 57,676,585         | 86,837,937        |
|          | <b>161,114,830</b> | <b>94,735,790</b> |

#### Analysed as follows: non-cash

|                               |                    |                  |
|-------------------------------|--------------------|------------------|
| Depreciation and amortisation | 32,281,207         | 1,708,043        |
| Provision of impairment       | 71,157,039         | 6,189,811        |
|                               | <b>103,438,246</b> | <b>7,897,854</b> |

#### Analysed as follows: cash

|                        |                   |                   |
|------------------------|-------------------|-------------------|
| Bulk purchases         | -                 | 6,936,427         |
| Contracted services    | 22,113,167        | 16,990,940        |
| General expenditure    | 8,339,827         | 41,361,961        |
| Employee related costs | 3,154,885         | 2,447,695         |
| Finance costs          | 24,068,707        | 19,100,914        |
|                        | <b>57,676,586</b> | <b>86,837,937</b> |

#### Unauthorised expenditure: Budget overspending – per municipal department:

|                          |                    |                   |
|--------------------------|--------------------|-------------------|
| Technical services       | 73,020,044         | 37,179,890        |
| Community services       | 30,878,611         | 25,257,146        |
| Finance                  | 39,123,911         | 27,608,524        |
| Planning and development | 609,170            | 595,615           |
| Executive and Council    | 11,402,146         | 4,094,615         |
| Forestry                 | 5,859,632          | -                 |
| Corporate                | 221,317            | -                 |
|                          | <b>161,114,831</b> | <b>94,735,790</b> |

#### Recoverability steps taken/criminal proceedings

The Unauthorised expenditure for the prior years up to the 2022 Financial year was subjected to Forensic Investigation and based on the outcome of such Investigations, Council recommended that a cumulative amount of R970,950,105 be written off on the basis that no person benefitted from it but it was for the benefit of the municipality.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

| Figures in Rand  | 2023              | 2022              |
|--|-------------------|-------------------|
| <b>58. Fruitless and wasteful expenditure</b>                |                   |                   |
| Opening balance as previously reported                       | 76,870,840        | 45,951,606        |
| Add: Fruitless and wasteful expenditure identified - current | 51,771,758        | 30,919,234        |
| Less: Amount written off- prior period resolution 23/08/201A | (46,211,581)      | -                 |
| Less: Amount written off- prior period resolution 20/12/442A | (30,659,259)      | -                 |
| <b>Closing balance</b>                                       | <b>51,771,758</b> | <b>76,870,840</b> |

# Mkhondo Local Municipality

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### 58. Fruitless and wasteful expenditure (continued)

#### Details of fruitless and wasteful expenditure

|                        | <b>Disciplinary steps taken/criminal proceedings</b> |            |            |
|------------------------|--|------------|------------|
| Interest and penalties | No criminal proceedings                              | 51,771,758 | 30,919,234 |

# Mkhondo Local Municipality

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### 58. Fruitless and wasteful expenditure (continued)

#### Amount written-off

After the council committee investigations, council adopted the council committee recommendation to write-off an amount of 76,870,840 from the total fruitless and wasteful expenditure amount as it was proven without reasonable doubt that the amount was not recoverable. The amount emanated from the liquidity problems the municipality is facing which resulted in interests and penalties due to failure to pay service providers within 30 days as stipulated in the MFMA section 65 (e) and 99 (b).

### 59. Irregular expenditure

|   |                   |                    |
|---|-------------------|--------------------|
| Opening balance as previously reported                | 132,072,825       | 118,681,458        |
| Add: Irregular expenditure - current                  | 19,782,747        | 13,391,367         |
| Less: Amount written off- prior resolution 23/08/201A | (77,494,009)      | -                  |
| Less: Amount written off- prior resolution 23/10/235A | (22,653,503)      | -                  |
| <b>Closing balance</b>                                | <b>51,708,060</b> | <b>132,072,825</b> |

# Mkhondo Local Municipality

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### 59. Unauthorised, Irregular and Fruitless and Wasteful Expenditure (continued)

Incidents/cases identified/reported in the current year include those listed below:

|   | Disciplinary steps taken/criminal proceedings |                   |
|---|---|-------------------|
| Non compliance with SCM regulations                               | 19,307,177                                    | 13,286,337        |
| Management override of controls and lack of segregation of duties | -   | 105,030           |
|   | <b>19,307,177</b>                             | <b>13,391,367</b> |

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### 59. Unauthorised, Irregular and Fruitless and Wasteful Expenditure (continued)

#### Amount recovered

There were no amounts recovered.

#### Amount written-off

After the council committee investigations, council adopted the council committee recommendation to write-off an amount of 77,494,006 from the total irregular expenditure amount as it was proven without reasonable doubt that the amount was not recoverable.

### 60. Additional disclosure in terms of Municipal Finance Management Act

#### Other material losses

2023

Electricity losses for the current year amounted to 40% i.e. R58,313,714. These losses comprise of technical and nontechnical losses. Technical losses, being losses within the network which are inherent in any network. Non-technical losses, being theft, faults, billing errors etc. Attempts are currently being made to reduce these non-technical losses. Nonrevenue water i.e. non billed water amounted to 25%% i.e. R669,223. Fifty six percent of these losses can be accounted for in terms of the National Guidelines for non revenue water. 27% of these losses cannot be accounted for mainly due to the non-metering of this water. This problem is currently being addressed whereby additional meters are being installed.

2022

Electricity losses for the current year amounted to 37% i.e. R55,274,259. These losses comprise of technical and nontechnical losses. Technical losses, being losses within the network which are inherent in any network. Non-technical losses, being theft, faults, billing errors etc. Attempts are currently being made to reduce these non-technical losses. Nonrevenue water i.e. non billed water amounted to 19%% i.e. R435,042. Fifty six percent of these losses can be accounted for in terms of the National Guidelines for non revenue water. 27% of these losses cannot be accounted for mainly due to the non-metering of this water. This problem is currently being addressed whereby additional meters are being installed.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

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| <b>60. Additional disclosure in terms of Municipal Finance Management Act (continued)</b> |                   |                   |
| <b>Audit fees</b>   |                   |                   |
| Opening balance   | 11,733,870        | 8,575,109         |
| Prior period adjustment   | (2,955,540)       | -                 |
| Current year subscription / fee   | 7,832,810         | 6,083,968         |
| VAT Raised  | 1,174,921         | 912,595           |
| Interest  | 795,818           | 452,188           |
| Amount paid   | (7,920,333)       | (4,289,990)       |
|   | <b>10,661,546</b> | <b>11,733,870</b> |
| <b>PAYE and UIF</b>   |                   |                   |
| Opening balance   | 16,682,640        | 2,969,217         |
| Current year subscription / fee   | 40,694,376        | 39,252,735        |
| Interest and penalties  | 4,044,782         | 3,327,812         |
| Opening balance adjustment  | -                 | 3,812,520         |
| Amount paid - current year  | (44,570,067)      | (32,679,644)      |
|   | <b>16,851,731</b> | <b>16,682,640</b> |
| <b>Pension and Medical Aid Deductions</b>   |                   |                   |
| Opening balance   | 4,486,664         | 2,900,488         |
| Current year subscription / fee   | 54,237,324        | 53,012,979        |
| Opening balance adjustment  | -                 | 1,373,754         |
| Amount paid   | (55,243,992)      | (52,800,557)      |
|   | <b>3,479,996</b>  | <b>4,486,664</b>  |
| <b>VAT</b>  |                   |                   |
| VAT receivable  | 186,729,192       | 134,694,891       |
| VAT payable   | (162,491,273)     | (128,396,798)     |
|   | <b>24,237,919</b> | <b>6,298,093</b>  |

VAT output payables and VAT input receivables are shown in note 6.

All VAT returns have been submitted by the due date throughout the year.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

## Notes to the Annual Financial Statements

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### 60. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June, 2023:

| 30 June, 2023           | Outstanding<br>less than 90<br>days | Outstanding<br>more than 90<br>days | Total          |
|-------------------------|-------------------------------------|-------------------------------------|----------------|
| Cllr. Mchunu B J        | 766                                 | 693                                 | 1,459          |
| Cllr. Dlamini M J       | 2,251                               | 13,725                              | 15,976         |
| Cllr. Cllr. Tshandu T W | 1,538                               | 30,813                              | 32,351         |
| Cllr. Dlamini B A       | 1,284                               | 26,207                              | 27,491         |
| Cllr. Mkhwanazi S P     | 5,527                               | 256                                 | 5,783          |
| Cllr. Sibiya S P        | 4,602                               | -                                   | 4,602          |
| Cllr. Sibiya J R        | 1,301                               | 28,588                              | 29,889         |
| Cllr. Ntshakala         | 341                                 | 910                                 | 1,251          |
| Cllr Shoba S M          | 1,187                               | 4,735                               | 5,922          |
| Cllr. Khumalo B M       | 2,803                               | 15,862                              | 18,665         |
|                         | <b>21,600</b>                       | <b>121,789</b>                      | <b>143,389</b> |

| 30 June, 2022      | Outstanding<br>less than 90<br>days | Outstanding<br>more than 90<br>days | Total         |
|--------------------|-------------------------------------|-------------------------------------|---------------|
| Cllr. Mthethwa F C | 486                                 | -                                   | 486           |
| Cllr. Motha V      | (19,364)                            | -                                   | (19,364)      |
| Cllr. Mchunu B J   | (348)                               | -                                   | (348)         |
| Cllr. Dlamini M J  | 2,190                               | 22,640                              | 24,830        |
| Cllr. Tshandu T W  | 1,449                               | 42,457                              | 43,906        |
| Cllr. Dlamini B A  | 1,022                               | 18,754                              | 19,776        |
|                    | <b>(14,565)</b>                     | <b>83,851</b>                       | <b>69,286</b> |

### 61. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

The following deviations were recorded during the year.

| No | Service provider | Service description  | Contract price | Procurement | Reason for deviation   | Council resolution |
|----|------------------|--|----------------|-------------|--|--------------------|
| 1  | McManus Nissan   | Repair Recon of Gearbox of NP300 with registration Number KHK 823 MP | R38,000.00     | 15/03/2023  | MSCM Regulation 36(1)(a)(ii)(v) - such goods and services are produced or available from a single provider only and Impractical / impossible to follow official procurement processes. |                    |

# Mkhondo Local Municipality

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### 62. Segment information

#### General information

#### Identification of segments

The municipality is organised and reports to management on the basis of seven major functional segments. The segments are organised around the functions and these are Afforestation, Budget and Treasury, Planning and Development, Executive and Council, Community Services, Corporate Services, Technical Services. Management uses these same segments for determining strategic objectives. Segments were aggregated for reporting purposes.

Information reported about these segments is used by management as a basis for evaluating the segments' performances and for making decisions about the allocation of resources. The disclosure of information about these segments is also considered appropriate for external reporting purposes.

#### Types of goods and/or services by segment

These reportable segments as well as the goods and/or services for each segment are set out below:

| <b>Reportable segment</b>         | <b>Goods and/or services</b>   |
|-----------------------------------|--|
| Technical services                | This segment consists of various departments with aligned objectives. It is responsible for providing residents, business and industry with clean, safe and reliable drinking water, treatment of waste water; distribution of electricity to residential, commercial and industrial customers in eMkhondo and provide the link between Eskom and electricity consumers and also road maintenance. |
| Community Services                | This segment consists of various departments with aligned objectives. It is responsible for community and social services, sport and recreation facilities, crime prevention and traffic enforcement.  |
| Planning and Economic Development | This segment consists of various departments with aligned objectives. It is responsible for urban planning and development.  |
| Executive and Council             | This segment is responsible for all aspects of governance of the municipality.   |
| Budget and Treasury               | This segment is responsible for all aspects of financial administration of the municipality. Various transactions are managed and administered centrally.  |
| Corporate services                | The segment deals with administration and human resources.   |
| Afforestation                     | This segments deals with the management of Municipality Forests.   |

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June, 2023

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### 62. Segment information (continued)

#### Segment surplus or deficit, assets and liabilities

2023

|   | Afforestation     | Budget and Treasury | Community Services | Corporate Services | Executive and Council | Planning and Economic Development | Technical Services | Total              |
|---|-------------------|---------------------|--------------------|--------------------|-----------------------|-----------------------------------|--------------------|--------------------|
| <b>Revenue</b>                          |                   |                     |                    |                    |                       |                                   |                    |                    |
| Revenue from non-exchange transactions  | -                 | -                   | 5,757,550          | -                  | -                     | -                                 | 386,089            | 6,143,639          |
| Interest received- Exchange revenue     | -                 | 1,358,824           | 7,218,580          | -                  | -                     | -                                 | 28,553,358         | 37,130,762         |
| Property rates                          | -                 | 80,030,574          | -                  | -                  | -                     | -                                 | -                  | 80,030,574         |
| Grants received                         | -                 | 95,643,068          | -                  | 386,269            | 298,035,600           | 2,855,000                         | 32,202,557         | 429,122,494        |
| Actuarial gains                         | -                 | 2,407,000           | -                  | -                  | -                     | -                                 | -                  | 2,407,000          |
| Interest received- non-exchange revenue | -                 | 11,746,198          | -                  | -                  | -                     | -                                 | -                  | 11,746,198         |
| Fair Value adjustments                  | 27,381,599        | 34,701              | -                  | -                  | -                     | -                                 | -                  | 27,416,300         |
| Other income                            | -                 | 477,846             | 581,909            | 4,105              | -                     | 885,151                           | 120,872            | 2,069,883          |
| Construction contracts                  | -                 | -                   | -                  | -                  | -                     | -                                 | 9,930,435          | 9,930,435          |
| Service charges                         | -                 | -                   | 14,300,956         | -                  | -                     | -                                 | 188,520,728        | 202,821,684        |
| Licences and permits                    | -                 | -                   | 190,575            | -                  | -                     | -                                 | -                  | 190,575            |
| Rentals received                        | -                 | -                   | 1,050,029          | 64,366             | -                     | -                                 | -                  | 1,114,395          |
| <b>Total segment revenue</b>            | <b>27,381,599</b> | <b>191,698,211</b>  | <b>29,099,599</b>  | <b>454,740</b>     | <b>298,035,600</b>    | <b>3,740,151</b>                  | <b>259,714,039</b> | <b>810,123,939</b> |
| <b>Entity's revenue</b>                 |                   |                     |                    |                    |                       |                                   |                    | <b>810,123,939</b> |

# Mkhondo Local Municipality

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|  | Afforestation     | Budget and Treasury | Community Services   | Corporate Services  | Executive and Council | Planning and Economic Development | Technical Services   | Total                |
|--|-------------------|---------------------|----------------------|---------------------|-----------------------|-----------------------------------|----------------------|----------------------|
| <b>62. Segment information (continued)</b> |                   |                     |                      |                     |                       |                                   |                      |                      |
| <b>Expenditure</b>                         |                   |                     |                      |                     |                       |                                   |                      |                      |
| Salaries and wages                         | 6,289,593         | 40,932,315          | 49,378,925           | 36,134,480          | 34,734,362            | 13,171,495                        | 72,507,943           | 253,149,113          |
| Depreciation and amortisation              | -                 | 494,763             | 7,508,207            | 6,649,462           | 3,225,221             | -                                 | 68,134,369           | 86,012,022           |
| Bulk purchases                             | -                 | -                   | -                    | -                   | -                     | -                                 | 146,655,499          | 146,655,499          |
| Contracted services                        | 17,161,730        | 16,119,616          | 28,180,927           | 117,752             | 8,039,255             | 801,329                           | 31,841,993           | 102,262,602          |
| General expenses                           | 988,796           | 24,952,125          | 5,245,899            | 9,614,549           | 12,560,229            | 992,729                           | 58,320,047           | 112,674,374          |
| Impairment loss                            | -                 | -                   | 1,291,289            | 184,237             | (18,898)              | -                                 | 32,895,259           | 34,351,887           |
| Finance charges                            | -                 | 51,771,758          | -                    | -                   | -                     | -                                 | 2,872,056            | 54,643,814           |
| Transfers and subsidies                    | -                 | -                   | -                    | -                   | 9,612,340             | -                                 | -                    | 9,612,340            |
| Loss on disposal of assets                 | -                 | 525,996             | 5,337,547            | 94,629              | (1,071,900)           | -                                 | 2,503,698            | 7,389,970            |
| Impairment provision                       | -                 | 28,932,599          | 34,742,489           | -                   | -                     | -                                 | 42,368,839           | 106,043,927          |
| Inventory losses                           | -                 | (17,949)            | -                    | -                   | -                     | -                                 | 6,411,833            | 6,393,884            |
| Bad debts                                  | -                 | 350,601             | -                    | -                   | -                     | -                                 | -                    | 350,601              |
| Lease rentals                              | -                 | 301,454             | -                    | -                   | -                     | -                                 | -                    | 301,454              |
| <b>Total segment expenditure</b>           | <b>24,440,119</b> | <b>164,363,278</b>  | <b>131,685,283</b>   | <b>52,795,109</b>   | <b>67,080,609</b>     | <b>14,965,553</b>                 | <b>464,511,536</b>   | <b>919,841,487</b>   |
| <b>Total segmental surplus/(deficit)</b>   | <b>2,941,480</b>  | <b>27,334,933</b>   | <b>(102,585,684)</b> | <b>(52,340,369)</b> | <b>230,954,991</b>    | <b>(11,225,402)</b>               | <b>(204,797,497)</b> | <b>(109,717,548)</b> |

Following a change in the composition of its reportable segments, the corresponding items of segment information for earlier periods has been restated.

### 2022

|  | Afforestation | Budget and Treasury | Community Services | Corporate Services | Executive and Council | Planning and Economic Development | Technical Services | Total              |
|--|---------------|---------------------|--------------------|--------------------|-----------------------|-----------------------------------|--------------------|--------------------|
| <b>Revenue</b>                         |               |                     |                    |                    |                       |                                   |                    |                    |
| Revenue from non-exchange transactions | -             | 188,898,109         | 6,015,772          | 130,521            | 264,917,213           | -                                 | 85,088,753         | 545,050,368        |
| Revenue from exchange transactions     | -             | 53,040,962          | 14,232,184         | 66,193             | 232,024               | 2,140,599                         | 195,175,653        | 264,887,615        |
| Other revenue                          | -             | -                   | 2,860,000          | -                  | -                     | -                                 | -                  | 2,860,000          |
| <b>Total segment revenue</b>           | <b>-</b>      | <b>241,939,071</b>  | <b>23,107,956</b>  | <b>196,714</b>     | <b>265,149,237</b>    | <b>2,140,599</b>                  | <b>280,264,406</b> | <b>812,797,983</b> |

# Mkhondo Local Municipality

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### 62. Segment information (continued)

|  |                     |                    |                     |                     |                    |                    |                      |                     |                    |
|--|---------------------|--------------------|---------------------|---------------------|--------------------|--------------------|----------------------|---------------------|--------------------|
| <b>Entity's revenue</b>                  |                     |                    |                     |                     |                    |                    |                      |                     | <b>812,797,983</b> |
| <b>Expenditure</b>                       |                     |                    |                     |                     |                    |                    |                      |                     |                    |
| Salaries and wages                       | 6,392,061           | 44,150,587         | 47,480,781          | 32,482,784          | 32,347,267         | 8,632,548          | 79,436,988           | 250,923,016         |                    |
| Other expenses                           | 8,442,353           | 96,067,569         | 47,034,183          | 12,691,661          | 27,504,411         | 1,150,014          | 312,627,656          | 505,517,847         |                    |
| Depreciation and Armotisation            | -                   | -                  | 3,448,302           | 5,972,318           | 47,548             | -                  | 78,518,046           | 87,986,214          |                    |
| <b>Total segment expenditure</b>         | <b>14,834,414</b>   | <b>140,218,156</b> | <b>97,963,266</b>   | <b>51,146,763</b>   | <b>59,899,226</b>  | <b>9,782,562</b>   | <b>470,582,690</b>   | <b>844,427,077</b>  |                    |
| <b>Total segmental surplus/(deficit)</b> | <b>(14,834,414)</b> | <b>101,720,915</b> | <b>(74,855,310)</b> | <b>(50,950,049)</b> | <b>205,250,011</b> | <b>(7,641,963)</b> | <b>(190,318,284)</b> | <b>(31,629,094)</b> |                    |

### Measurement of segment surplus or deficit, assets and liabilities

### Basis of accounting for transactions between reportable segments

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

### Information about geographical areas

The municipality's operations are in the Mkhondo Local Municipality.

### 63. Accounting by principals and agents

The entity is a party to a principal-agent arrangement(s).

### Details of the arrangement(s) is|are as follows:

The entity is the principal in a Principal Agent Relationship with Contour Technologies. Refer to note 1.5 for significant judgements applied in making this assessment.

The Municipality (the Principal) has a principal-agent relationship with a service provider (Contour Technologies (Pty) Ltd) which directs the service provider (Agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit. These transactions relate to the selling of prepaid electricity to the Municipality's consumers. Contour Technologies (Pty) Ltd collects all cash relating to the sale of the prepaid electricity which is sold through its vendors in a bank account operated by it and remit all funds due to the Municipality after deduction of any application costs and fees.

# Mkhondo Local Municipality

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### 63. Accounting by principals and agents (continued)

#### Entity as principal

#### Resources (including assets and liabilities) of the entity under the custodianship of the agent

The resources have have not been recognised by the agent in its financial statements.

During the period the Agent transferred an amount of R67,989,612 and withheld commission of R3,578,401 to the Municipality bank account.

#### Fee paid

|                                       |           |           |
|---------------------------------------|-----------|-----------|
| Fee paid as compensation to the agent | 3,578,401 | 4,125,468 |
|---------------------------------------|-----------|-----------|

The resource and/or cost implications for the entity if the principal-agent arrangement is terminated, are [State information/discussion].

[Provide additional info as appropriate]