



Renosterberg Local Municipality
Annual financial statements
for the year ended June 30, 2022
Auditor-General South Africa

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

General Information

Legal form of entity	Municipality
Mayoral committee	
Executive Mayor	Cllr. Al Samson
	Cllr. TK Ramakwa (Speaker)
	Cllr. VS Niewenhuisen (Chief Whip)
Councillors	Cllr. JMZ Posthumus
	Cllr. CS Papashe-Hugo
	Cllr. D Kelem
	Cllr. N Booysen
	Cllr. W Fillies
	Cllr. EG Bekkers
Grading of local authority	Category B as defined by the Municipal Structures Act, Act no.117 of 1998
Accounting Officer	Mr J Fortuin - Appointed on 6 July 2022 Mr A Matolong - Terminated on 5 July 2022
Chief Finance Officer (CFO)	Ms A Thibedi - Appointed on 2 March 2022 Mr T Sediti - Resigned on 31 October 2021
Registered office	555 School Street Petrusville 8770
Business address	School Street Petrusville 8770
Postal address	PO Box 112 Petrusville 8770
Bankers	Standard Bank of South Africa Limited
Auditors	Auditor-General South Africa
Attorneys	Mjila and Partners

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

General Information

Enabling legislations

Municipal Finance Management Act (Act no. 56 of 2003)
Division of Revenue Act
The Income Tax Act (Act no. 58 of 1962)
Value Added Tax Act (Act no 89 of 1991)
Municipal Structures Act (Act no. 117 of 1998)
Municipal Systems Act (Act no. 32 of 2000)
Municipal Planning and Performance Management Regulations
Housing Act (Act no. 107 of 1997)
Skills Development Levies Act (Act no. 9 of 1999)
Employment Equity Act (Act no. 55 of 1998)
Unemployment Insurance Act (Act no. 30 of 1966)
Basic Conditions of Employment Act (Act no. 75 of 1997)
Supply Chain Management Regulations, 2005
Disaster Management Act of 2016
Spatial Planning and Land Use Management Act (Act 16 of 2013)
Property Rates Act 6 of 2004

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

	Page
Accounting Officer's Responsibilities and Approval	4
Accounting Officer's Report	5 - 6
Statement of Financial Position	6
Statement of Financial Performance	7
Statement of Changes in Net Assets	8
Statement of Comparison of Budget and Actual Amounts	10 - 11
Accounting Policies	12 - 44
Notes to the Annual Financial Statements	45 - 75

Abbreviations used:

COID	Compensation for Occupational Injuries and Diseases
DoRA	Division of Revenue Act
GRAP	Generally Recognised Accounting Practice
EPWP	Expanded Public Works Programme
FMG	Finance Management Grant
IDP	Integrated Development Plan
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts
MSA	Municipal Systems Act
MIG	Municipal Infrastructure Grant
PAYE	Pay As You Earn
SARS	South African Revenue Service

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Officer's Responsibilities and Approval

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.

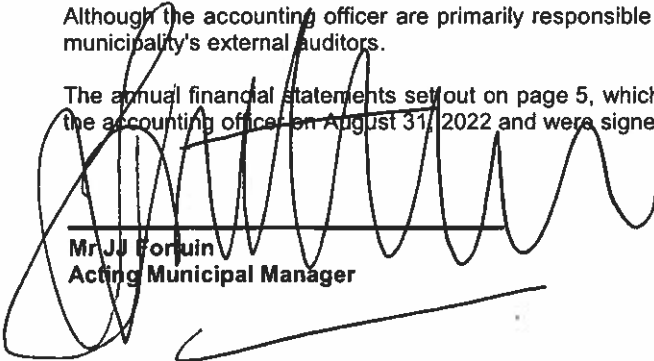
The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal 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 June 30, 2023 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 annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the accounting officer on August 31, 2022 and were signed on its behalf by:



Mr JJ Forquin
Acting Municipal Manager

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Officer's Report

The accounting officer submits his report for the year ended June 30, 2022.

1. Review of activities

Main business and operations

The municipality is engaged in providing municipal services and maintaining the best interest of the local community within the Renosterberg municipal area 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.

Net surplus of the municipality was R 32,684,504 (2021: deficit R 32,411,435).

2. Going concern

We draw attention to the fact that at June 30, 2022, the municipality had an accumulated surplus (deficit) of R 371,138,905 and that the municipality's total liabilities exceed its assets by R 371,138,905.

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.

Furthermore management has reviewed the municipality's cash flow forecast for the year ended 30 June 2023 and, in the light of this review and the current financial position, management is satisfied that the municipality has, or has access to, adequate resources to continue its operational existence for the foreseeable future.

The municipality still has the ability to levy services, rates and taxes and will continue to receive funding from government as evident from the Equitable Share allocations published in terms of the Division of Revenue Act (Act 1 of 2016).

For details of management's assumptions with respect to the municipality to the going concern assumption refer to note 46

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officers' interest in contracts

No matters to report.

5. Accounting policies

The annual financial statements prepared 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	Nationality	Changes
Ms D Farmer	South African	Resigned Saturday, July 31, 2021
Mr A Matolong	South African	Appointed Wednesday, September 1, 2021 Resigned Tuesday, July 5, 2022
Mr JJ Fortuin	South African	Appointed Wednesday, July 6, 2022

7. Auditors

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

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Officer's Report

Statement of Financial Position as at June 30, 2022

Figures in Rand	Note(s)	2022	2021 Restated*
Assets			
Current Assets			
Inventories	9	30,407	28,767
Receivables from exchange transactions	10&13	4,932	5,815
Statutory receivables from non-exchange transactions	13	4,630,192	1,701,798
Statutory receivables from exchange transactions	11	3,271,164	4,143,664
Consumer debtors	12	21,608,171	6,837,415
Cash and cash equivalents	14	22,429,620	2,707,316
		51,974,486	15,424,775
Non-Current Assets			
Investment property	3	23,739,702	22,440,348
Property, plant and equipment	4	502,149,386	491,668,394
Intangible assets	5	31,805	67,775
		525,920,893	514,176,517
Total Assets		577,895,379	529,601,292
Liabilities			
Current Liabilities			
Finance lease obligation	15	810,954	507,725
Payables from exchange transactions	6	166,870,485	155,698,492
Consumer deposits	7	836,847	789,917
Employee benefit obligation	8	180,000	499,000
Unspent conditional grants and receipts	16	2,136,387	2,569,106
Provisions	18	-	3,902,786
		170,834,673	163,967,026
Non-Current Liabilities			
Finance lease obligation	15	2,617,250	3,428,204
Employee benefit obligation	8	2,313,000	3,021,000
Provisions	18	30,991,551	20,730,669
		35,921,801	27,179,873
Total Liabilities		206,756,474	191,146,899
Net Assets		371,138,905	338,454,393
Accumulated surplus		371,138,905	338,454,393
Total Net Assets		371,138,905	338,454,393

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Statement of Financial Performance

Figures in Rand	Note(s)	2022	2021 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	21	18,778,454	15,307,391
Rental of facilities and equipment	22	696,170	1,322,989
Other income	24	100,688	140,730
Interest received - investment	25	138,949	188,757
Total revenue from exchange transactions		19,714,261	16,959,867
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	26	4,495,850	4,174,028
Transfer revenue			
Government grants & subsidies	27	51,672,719	40,822,582
Public contributions and donations	28	4,320,710	4,698,833
Total revenue from non-exchange transactions		60,489,279	49,695,443
Total revenue	19	80,203,540	66,655,310
Expenditure			
Employee related costs	29	(22,842,096)	(28,412,049)
Remuneration of councillors	30	(3,220,491)	(2,958,442)
Depreciation and amortisation	31	(35,970)	(19,228,898)
Finance costs	33	(3,149,167)	(8,304,192)
Debt Impairment	35	(623)	(9,984,081)
Bulk purchases	37	(12,698,843)	(8,165,905)
General Expenses	36	(8,357,487)	(13,420,747)
Total expenditure		(50,304,677)	(90,474,314)
Operating surplus (deficit)	39	29,898,863	(23,819,004)
Loss on disposal of assets and liabilities		-	(8,134,309)
Fair value adjustments	41	1,299,354	-
Actuarial gains/losses	8	1,486,287	(458,122)
		2,785,641	(8,592,431)
Surplus (deficit) for the year		32,684,504	(32,411,435)

* See Note

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus / deficit	Total net assets
Balance at July 1, 2020	370,865,828	370,865,828
Changes in net assets		
Surplus for the year	(32,411,435)	(32,411,435)
Total changes	(32,411,435)	(32,411,435)
Restated* Balance at July 1, 2021	338,454,401	338,454,401
Changes in net assets		
Surplus for the year	32,684,504	32,684,504
Total changes	32,684,504	32,684,504
Balance at June 30, 2022	371,138,905	371,138,905
Note(s)		

* See Note

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Cash Flow Statement

Figures in Rand	Note(s)	2022	2021 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		25,429,363	9,470,330
Grants		37,393,312	47,642,833
Interest income		138,949	-
		<u>62,961,624</u>	<u>57,113,163</u>
Payments			
Employee costs		(19,288,743)	(16,551,754)
Suppliers		(6,450,232)	(5,670,970)
Finance costs		(1,023,715)	(12,077,557)
		<u>(26,762,690)</u>	<u>(34,300,281)</u>
Net cash flows from operating activities	38	<u>36,198,934</u>	<u>22,812,882</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	4	<u>(15,041,839)</u>	<u>(18,799,570)</u>
Cash flows from financing activities			
Finance lease payments		<u>(1,436,595)</u>	<u>(1,305,996)</u>
Net increase/(decrease) in cash and cash equivalents		19,720,500	2,707,316
Cash and cash equivalents at the beginning of the year		2,707,316	-
Cash and cash equivalents at the end of the year	14	<u>22,427,816</u>	<u>2,707,316</u>

The accounting policies on pages 12 to 44 and the notes on pages 45 to 75 form an integral part of the annual financial statements.

* See Note

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

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						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	23,007,998	-	23,007,998	18,778,454	(4,229,544)	
Rental of facilities and equipment	1,084,927	-	1,084,927	696,170	(388,757)	
Licences and permits	6,297	-	6,297	-	(6,297)	
Other income - (rollup)	17,534	-	17,534	100,688	83,154	
Interest received - investment	2,708,601	-	2,708,601	138,949	(2,569,652)	
Total revenue from exchange transactions	26,825,357	-	26,825,357	19,714,261	(7,111,096)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	4,279,004	-	4,279,004	4,495,850	216,846	
Transfer revenue						
Government grants & subsidies	45,274,000	-	45,274,000	51,672,719	6,398,719	
Public contributions and donations	-	-	-	4,320,710	4,320,710	
Total revenue from non-exchange transactions	49,553,004	-	49,553,004	60,489,279	10,936,275	
Total revenue	76,378,361	-	76,378,361	80,203,540	3,825,179	
Expenditure						
Personnel	26,861,738	-	26,861,738	(22,842,096)	(49,703,834)	
Remuneration of councillors	2,427,739	-	2,427,739	(3,220,491)	(5,648,230)	
Depreciation and amortisation	7,146,258	-	7,146,258	(35,970)	(7,182,228)	
Finance costs	-	-	-	(3,149,167)	(3,149,167)	
Debt Impairment	16,046,080	-	16,046,080	(623)	(16,046,703)	
Bulk purchases	13,118,900	-	13,118,900	(12,698,843)	(25,817,743)	
Contracted Services	3,546,204	-	3,546,204	-	(3,546,204)	
General Expenses	3,984,829	-	3,984,829	(8,357,487)	(12,342,316)	
Total expenditure	73,131,748	-	73,131,748	(50,304,677)	(123,436,425)	
Operating surplus	149,510,109	-	149,510,109	29,898,863	(119,611,246)	
Fair value adjustments	-	-	-	1,299,354	1,299,354	
Actuarial gains/losses	-	-	-	1,486,287	1,486,287	
	-	-	-	2,785,641	2,785,641	
Surplus before taxation	149,510,109	-	149,510,109	32,684,504	(116,825,605)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	149,510,109	-	149,510,109	32,684,504	(116,825,605)	
Reconciliation						

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

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						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	-	-	-	30,407	30,407	
Receivables from exchange transactions	-	-	-	4,932	4,932	
Statutory receivables from non-exchange transactions	-	-	-	4,630,192	4,630,192	
VAT receivable	-	-	-	13,822,673	13,822,673	
Consumer debtors	(84,092,484)	-	(84,092,484)	21,608,171	105,700,655	
Cash and cash equivalents	78,393,577	-	78,393,577	22,429,620	(55,963,957)	
	(5,698,907)	-	(5,698,907)	62,525,995	68,224,902	
Non-Current Assets						
Investment property	(1,084,075,084)	-	(1,084,075,084)	23,739,702	1,107,814,786	
Property, plant and equipment	-	-	-	502,149,386	502,149,386	
Intangible assets	-	-	-	31,805	31,805	
	(1,084,075,084)	-	(1,084,075,084)	525,920,893	1,609,995,977	
Total Assets	(1,089,773,991)	-	(1,089,773,991)	588,446,888	1,678,220,879	
Liabilities						
Current Liabilities						
Finance lease obligation	-	-	-	810,954	810,954	
Payables from exchange transactions	(71,462,185)	-	(71,462,185)	166,870,486	238,332,671	
VAT payable	-	-	-	10,551,509	10,551,509	
Consumer deposits	12,024,756	-	12,024,756	836,847	(11,187,909)	
Employee benefit obligation	-	-	-	180,000	180,000	
Unspent conditional grants and receipts	-	-	-	2,136,387	2,136,387	
	(59,437,429)	-	(59,437,429)	181,386,183	240,823,612	
Non-Current Liabilities						
Finance lease obligation	44,274,000	-	44,274,000	2,617,250	(41,656,750)	
Employee benefit obligation	-	-	-	2,313,000	2,313,000	
Provisions	(8,000,001)	-	(8,000,001)	30,991,551	38,991,552	
	36,273,999	-	36,273,999	35,921,801	(352,198)	
Total Liabilities	(23,163,430)	-	(23,163,430)	217,307,984	240,471,414	
Net Assets	(1,066,610,561)	-	(1,066,610,561)	371,138,904	1,437,749,465	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	(1,066,610,561)	-	(1,066,610,561)	371,138,906	1,437,749,467	
Undefined Difference	-	-	-	(2)	(2)	
Total Net Assets	(1,066,610,561)	-	(1,066,610,561)	371,138,906	1,437,749,467	

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

Figures in Rand	Note(s)	2022	2021
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1. Presentation of Annual Financial Statements

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.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 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.

1.3 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:

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.

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 R - lower or R - higher were the discounted rate used in the discount cash flow analysis to differ by 10% from management's estimates.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

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 18 - Provisions.

Contingent provisions on entity combinations

Contingencies recognised in the current year required estimates and judgments, refer to note on entity combinations.

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 8.

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.

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.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Useful lives and residual values

The entity's management determines the estimated useful lives, residual values and related depreciation charges for assets as noted in accounting policy 1.5. Property Plant and equipment. These estimates are based on industry norms.

Management will increase the depreciation charge prospectively where useful lives are less than previously estimated useful lives. Management will decrease the depreciation charge prospectively where useful lives are more than previously estimated useful lives.

Where changes are made to the estimated residual values, management also makes these changes prospectively.

1.4 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.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

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.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.4 Investment property (continued)

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 3).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note 3).

Derecognition

Items of investment property are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of asset.

The gain or loss arising from the derecognition of an item of investment property is included in surplus or deficit when the item is derecognised.

The gain or loss arising from the derecognition of an item of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset.

1.5 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.

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.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.5 Property, plant and equipment (continued)

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

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

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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

Item	Depreciation method	Average useful life
Land	Straight-line	Indefinite
Buildings	Straight-line	5, 15 - 80 years, some indefinite
Furniture and fixtures	Straight-line	7 - 10 years
Motor vehicles	Straight-line	5 - 7 years
Office equipment	Straight-line	3 - 5 years
IT equipment	Straight-line	3 - 5 years
Infrastructure	Straight-line	5 - 100 years, some indefinite
Community	Straight-line	5 - 100 years, some indefinite
Bins and containers	Straight-line	5 - 7 years
Landfill sites	Straight-line	10 - 20 years
Specialised vehicles	Straight-line	5 - 7 years
Infrastructure asset - Wastewater network	Straight-line	12 - 100 years, some indefinite
Infrastructure asset - Water network	Straight-line	7 - 100 years, some indefinite
Infrastructure asset - Roads and stormwater network	Straight-line	55 - 100 years, some indefinite
Infrastructure asset - Electricity network	Straight-line	10 - 60 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.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.5 Property, plant and equipment (continued)

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.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 4).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 4).

1.6 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.

1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.7 Intangible assets (continued)

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

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

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight-line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software, other	Straight-line	3 years
Servitudes	Straight-line	Indefinite

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

1.8 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.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.8 Financial instruments (continued)

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.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

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).

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.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.8 Financial instruments (continued)

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 unitised 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;
- 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.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.8 Financial instruments (continued)

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:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial asset2	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:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost

1.9 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.

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.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.9 Statutory receivables (continued)

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.

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, an 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.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.9 Statutory receivables (continued)

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.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.11 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;

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.11 Inventories (continued)

- 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 first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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.

1.12 Impairment of 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.

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 used 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.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

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 amount of an asset or a cash-generating unit is the higher its 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.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.13 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.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.13 Impairment of non-cash-generating assets (continued)

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.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of Non-cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.13 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.13 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.14 Employee benefits

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

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

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.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.14 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.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.14 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.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.14 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.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.14 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.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.14 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.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits 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.

The entity shall recognise the net total of the following amounts as expense or revenue, 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 right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.14 Employee benefits (continued)

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit 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 benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

Provision for Staff Leave

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end, capped at a maximum of 48 days, and also on the total remuneration package of the employee.

Accumulating leave is carried forward and can be used in future periods, if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term.

Accumulated leave is vesting.

Staff Bonuses Accrued

Liabilities for staff bonuses are recognised as they are accrued to employees. The liability at year-end is based on bonus accrued at year-end for each employee.

1.15 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.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.15 Provisions and contingencies (continued)

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.

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 .

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.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.15 Provisions and contingencies (continued)

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, a 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.

1.16 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.

1.17 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.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.17 Revenue from exchange transactions (continued)

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 services performed to date as a percentage of total services to be performed.

Pre-paid electricity:

Prepaid electricity revenue is recognised at the point of sale. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Pre-paid electricity sales are reconciled on a monthly basis and the sum of the monthly sales provides the total sales for the year. The financial year is divided in two seasons based on the application of tariffs with the seasons being summer (1 September – 31 May) and winter (1 June to 31 August). The deferred portion of revenue is accounted for by an adjustment for units not consumed at year end. This adjustment is based on the average consumption history, multiplied by the weighted average cost of units sold in June. Average consumption in units is determined per active prepaid meter using a trend analysis of historical consumer purchase data per meter for the months of May, June and July. The deferred portion of revenue is the amount by which the actual prepaid electricity sold for the month of June exceeds the average consumption calculated.

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.

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.

1.18 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.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

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 arises 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.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

Measurement

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

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.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

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.

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

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.19 Investment income

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

1.20 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.

1.21 Comparative figures

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

1.22 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).

1.23 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).

1.24 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.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.24 Irregular expenditure (continued)

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).

1.25 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.26 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.27 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.

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 a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 7/1/2021 to 6/30/2022.

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.

1.28 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.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.28 Related parties (continued)

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.

1.29 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.

1.30 Value Added Tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate 15% in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes.

1.31 Accumulated surplus

The municipality's surplus or deficit for the year is accounted for in the accumulated surplus in the statement of changes in net assets.

The accumulated surplus/deficit represents the net difference between total assets and total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments relating to income and expenditure are debited/credited against accumulated surplus when retrospective adjustments are made.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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2. New standards and interpretations

2.1 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 July 1, 2022 or later periods:

GRAP 25 (as revised): Employee Benefits

Background

The Board issued the Standard of GRAP on Employee Benefits (GRAP 25) in November 2009. GRAP 25 was based on the International Public Sector Accounting Standard on Employee Benefits (IPSAS 25) effective at that time. However, GRAP 25 was modified in some respects where the Board decided the requirements of the International Accounting Standard on Employee Benefits (IAS® 19) were more appropriate. Specifically, the Board:

- Eliminated the corridor method and required recognition of actuarial gains and losses in full in the year that they arise.
- Required the recognition of past service costs in the year that a plan is amended, rather than on the basis of whether they are vested or unvested.

Since 2009, the International Accounting Standards Board® has made several changes to IAS 19, including changes to the recognition of certain benefits, and where these changes are recognised. The IPSASB made similar changes to its standard and as a result of the extent of changes, issued IPSAS 39 on Employee Benefits to replace IPSAS 25 in 2016.

When the Board consulted locally on the proposed amendments to IPSAS 25 in 2016, stakeholders welcomed the amendments to align IPSAS 25 to IAS 19 and supported the changes that resulted in IPSAS 39.

In developing GRAP 25, the Board agreed to include the guidance from the IFRS Interpretation on IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IFRIC 14®) partly in GRAP 25 and partly in the Interpretation of the Standards of GRAP on The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IGRAP 7).

Key amendments to GRAP 25

The Board agreed to align GRAP 25 with IPSAS 39, but that local issues and the local environment need to be considered. As a result of this decision, there are areas where GRAP 25 departs from the requirements of IPSAS 39. The Board's decisions to depart are explained in the basis for conclusions.

The amendments to GRAP 25 are extensive and mostly affect the accounting for defined benefit plans. A new renumbered Standard of GRAP (e.g. GRAP 39) will not be issued, but rather a new version of the current GRAP 25.

The effective date of these revisions have not yet been set. April 1, 2099.

The municipality expects to adopt the revisions for the first time in the 2098/2099 annual financial statements.

It is unlikely that the revisions will have a material impact on the municipality's annual financial statements.

iGRAP 7 (as revised): Limit on defined benefit asset, minimum funding requirements and their interaction

Background

The Board issued the Standard of GRAP on Employee Benefits (GRAP 25) in November 2009. GRAP 25 was based on the International Public Sector Accounting Standard on Employee Benefits (IPSAS 25) effective at that time. However, GRAP 25 was modified in some respects where the Board decided the requirements of the International Accounting Standard on Employee Benefits (IAS® 19) were more appropriate. Specifically, the Board:

- Eliminated the corridor method and required recognition of actuarial gains and losses in full in the year that they arise.
- Required the recognition of past service costs in the year that a plan is amended, rather than on the basis of whether they are vested or unvested.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Since 2009, the International Accounting Standards Board® has made several changes to IAS 19, including changes to the recognition of certain benefits, and where these changes are recognised. The IPSASB made similar changes to its standard and as a result of the extent of changes, issued IPSAS 39 on Employee Benefits to replace IPSAS 25 in 2016.

When the Board consulted locally on the proposed amendments to IPSAS 25 in 2016, stakeholders welcomed the amendments to align IPSAS 25 to IAS 19 and supported the changes that resulted in IPSAS 39.

In developing GRAP 25, the Board agreed to include the guidance from the IFRS Interpretation on IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IFRIC 14®) partly in GRAP 25 and partly in the Interpretation of the Standards of GRAP on The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IGRAP 7).

The effective date of these revisions have not yet been set. April 1, 2009.

The municipality expects to adopt the revisions for the first time in the 2008/2009 April 1, 2009.

It is unlikely that the revisions will have a material impact on the municipality's annual financial statements.

GRAP 104 (as revised): Financial Instruments

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making, (b) using fair value in certain instances was inappropriate, and (c) some of the existing accounting requirements were seen as too rules based. As a result, the International Accounting Standards Board® amended its existing Standards to deal with these issues. The IASB issued IFRS® Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to IAS® on Financial Instruments: Presentation and the IFRS Standard® on Financial Instruments: Disclosures. The IPSASB issued revised International Public Sector Accounting Standards in June 2018 so as to align them with the equivalent IFRS Standards.

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect:

- Financial guarantee contracts issued
- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

The effective date of the revisions is not yet set by the Minister of Finance.

The municipality expects to adopt the revisions for the first time when the Minister sets the effective date for the revisions.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

iGRAP 21: The Effect of Past Decisions on Materiality

Background

The Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors (GRAP 3) applies to the selection of accounting policies. Entities apply the accounting policies set out in the Standards of GRAP, except when the effect of applying them is immaterial. This means that entities could apply alternative accounting treatments to immaterial items, transactions or events (hereafter called "items").

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The Board received questions from entities asking whether past decisions to not apply the Standards of GRAP to immaterial items effect future reporting periods. Entities observed that when they applied alternative accounting treatments to items in previous reporting periods, they kept historical records on an ongoing basis of the affected items. This was done so that they could assess whether applying these alternative treatments meant that the financial statements became materially "misstated" over time. If the effect was considered material, retrospective adjustments were often made.

This Interpretation explains the nature of past materiality decisions and their potential effect on current and subsequent reporting periods.

iGRAP 21 addresses the following two issues:

- Do past decisions about materiality affect subsequent reporting periods?
- Is applying an alternative accounting treatment a departure from the Standards of GRAP or an error?

The effective date of these interpretation have not yet been set. April 1, 2023.

The municipality expects to adopt the interpretation for the first time in the 2022/2023 April 1, 2023.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

GRAP 2020: Improvements to the standards of GRAP 2020

Every three years, the Accounting Standards Board undertakes periodic revisions of the Standards of GRAP, in line with best practice internationally among standard setters.

Improvements to Standards of GRAP are aimed at aligning the Standards of GRAP with international best practice, to maintain the quality and to improve the relevance of the Standards of GRAP.

Amendments include,

GRAP 5 – Borrowing Costs

- For general borrowings, borrowing costs eligible for capitalisation determined by applying a capitalisation rate
 - Clarify that borrowings made specifically for purposes of obtaining a qualifying asset are excluded until substantially all the activities necessary to prepare asset for intended use or sale are complete

GRAP 13 – Leases

- Operating leases & Sale and leaseback transactions are currently assessed for impairment in accordance with GRAP 26
- Clarify that these arrangements may also be assessed in accordance with GRAP 21

GRAP 16 – Investment Property

- Clarify that GRAP 21 may be applied to assess investment property for impairment
- Include heading "Classification of property as investment property" (par 6 and 7) & delete existing headings
- Investment property under construction (within scope of GRAP 16)
 - Added heading "Guidance on initially measuring self-constructed investment property at fair value"
 - Added clarification that investment property is measured at fair value at earliest of:
 - o completion of construction or development; or
 - o when fair value becomes reliably measurable
- Clarify requirements on transfers to and from Investment property
 - Change in use involves an assessment on whether:
 - o property meets, or ceases to meet definition of investment property and
 - o evidence exists that a change in use has occurred
 - List of examples of a change in use is regarded as non-exhaustive

GRAP 17 – Property, Plant and Equipment

- Delete example indicating that quarries and land used for landfill may be depreciated in certain instances
 - Land has an unlimited useful life and cannot be consumed through its use

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 20 – Related Party Disclosures

- Clarify that entity, or any member of a group of which it is part, providing management services to reporting entity (or controlling entity of reporting entity) is a related party
 - Disclose amounts incurred by the entity for the provision of management services that are provided by a separate management entity
 - If an entity obtains management services from another entity ("the management entity") the entity is not required to apply the requirements in paragraph .35 to the remuneration paid or payable by the management entity to the management entity's employees or those charged with governance of the entity in accordance with legislation, in instances where they are required to perform such functions
 - Management services are services where employees of management entity perform functions as "management" as defined

GRAP 24 – Presentation of Budget Information in Financial Statements

- Terminology amended
 - Primary financial statements amended to "financial statements" or "face of the financial statements"

GRAP 31 – Intangible Assets

- Extend requirement to consider whether reassessing useful life of intangible asset as finite rather as indefinite indicates that asset may be impaired
 - Both under cost model or revaluation model

GRAP 32 – Service Concession Arrangements: Grantor

- Clarify disclosure requirement for service concession assets
 - Disclose carrying amount of each material service concession asset recognised at the reporting date

GRAP 37 – Joint Arrangements

- Application guidance clarified
 - When party obtains joint control in a joint operation where activity of joint operation constitutes a function (GRAP 105 or GRAP 106), previous held interest in joint operation is not remeasured

GRAP 106 – Transfer of Functions Between Entities Not Under Common Control

- When party obtains control of joint operation and entity had rights to assets, or obligations to liabilities before acquisition date, it comprises an acquisition received in stages
 - Apply the requirements for an acquisition achieved in stages, including remeasuring previously held interest in joint operation

Directive 7 – The Application of Deemed Cost

- Clarify that bearer plants within scope of Directive

The effective date of these improvements is April 1, 2023.

The municipality expects to adopt the improvements for the first time in the 2022/2023 annual financial statements.

It is unlikely that the improvements will have a material impact on the municipality's annual financial statements.

GRAP 1 (amended): Presentation of Financial Statements

Amendments to this Standard of GRAP, are primarily drawn from the IASB's Amendments to IAS 1.

Summary of amendments are:

Materiality and aggregation

The amendments clarify that:

- information should not be obscured by aggregating or by providing immaterial information;
- materiality considerations apply to all parts of the financial statements; and
- even when a Standard of GRAP requires a specific disclosure, materiality considerations apply.

Statement of financial position and statement of financial performance

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The amendments clarify that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

Notes structure

The amendments add examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order listed in GRAP 1.

Disclosure of accounting policies

Remove guidance and examples with regards to the identification of significant accounting policies that were perceived as being potentially unhelpful.

An municipality applies judgement based on past experience and current facts and circumstances.

The effective date of this amendment is for years beginning on or after April 1, 2025.

The municipality expects to adopt the amendment for the first time in the 2024/2025 annual financial statements.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2022 or later periods but are not relevant to its operations:

Guideline: Guideline on Accounting for Landfill Sites

The objective of this guideline: The Constitution of South Africa, 1996 (Act No. 108 of 1996) (the constitution), gives local government the executive authority over the functions of cleaning, refuse removal, refuse dumps and solid waste disposal. Even though waste disposal activities are mainly undertaken by municipalities, other public sector entities may also be involved in these activities from time to time. Concerns were raised about the inconsistent accounting practices for landfill sites and the related rehabilitation provision where entities undertake waste disposal activities. The objective of the Guideline is therefore to provide guidance to entities that manage and operate landfill sites. The guidance will improve comparability and provide the necessary information to the users of the financial statements to hold entities accountable and for decision making. The principles from the relevant Standards of GRAP are applied in accounting for the landfill site and the related rehabilitation provision. Where appropriate, the Guideline also illustrates the accounting for the land in a landfill, the landfill site asset and the related rehabilitation provision.

It covers: Overview of the legislative requirements that govern landfill sites, Accounting for land, Accounting for the landfill site asset, Accounting for the provision for rehabilitation, Closure, End-use and monitoring, Other considerations, and Annexures with Terminology & References to pronouncements used in the Guideline.

The effective date of the guideline is for years beginning on or after April 1, 2009.

The municipality does not envisage the adoption of the guideline until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Directive 14: The application of Standards of GRAP by Public Entities that apply IFRS® Standards

Objective of this directive: The Board has approved the application of International Financial Reporting Standards (IFRS® Standards) issued by the International Accounting Standards Board (IASB®) for public entities (hereafter referred to as "an entity") that meet the criteria to apply IFRS Standards as outlined in the Directive on The Selection of an Appropriate Reporting Framework by Public Entities (Directive 12).

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Entities that apply IFRS Standards and operate in the public sector may need to formulate an accounting policy in the absence of an IFRS Standard that specifically applies to a transaction, other event or condition (hereafter referred to as “formulating an accounting policy”) using other sources. When formulating an accounting policy in the absence of an IFRS Standard, the municipality needs to consider its users and their information needs. Users of financial statements prepared using the IFRS Standards are interested in information on the return on their investments, and/or the return of their investments, and to make decisions about providing resources to the municipality.

The objective of this Directive is to explain when, and in what circumstances, an municipality may consider the principles in a Standard of GRAP when formulating such an accounting policy.

It covers: Scope, Formulating an accounting policy in the absence of a specific IFRS® Standard, and Basis for conclusions.

The effective date of the Directive is April 1, 2021.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme

The objective of this guideline: Entities in the public sector are frequently involved in the construction of houses as part of government's housing policy, implemented through the national housing programme, which is aimed at developing sustainable human settlements. The Housing Act, Act No. 107 of 1997 provides information about the housing programmes that fall within the scope of the national housing programme. Concerns were raised by preparers about the inconsistent accounting applied to housing arrangements undertaken by entities under the national housing programme. Different accounting may be appropriate where there are differences between the terms and conditions of arrangements concluded by entities. However, under housing arrangements that are undertaken in terms of the national housing programme, there are common features and issues that need to be considered. As a result, the Board agreed to develop high-level guidance for arrangements undertaken in terms of the national housing programme.

It covers: Background to arrangements undertaken in terms of the national housing programme, Transactions that affect the accounting of housing arrangements, Consider whether the municipality undertakes transactions with third parties on behalf of another party, Accounting by municipalities appointed as project manager, Disclosure requirements, Accounting by municipalities appointed as project developer, Accounting for the accreditation fee, commission, administration or transaction fee received, Land and infrastructure, Conclusion and Application of this Guideline to existing arrangements.

The effective date of the guideline is for years beginning on or after April 1, 2019.

The municipality does not envisage the adoption of the guideline until such time as it becomes applicable to the municipality's operations.

It is unlikely that the guideline will have a material impact on the municipality's annual financial statements.

GRAP 110 (as amended 2016): Living and Non-living Resources

The objective of this Standard is to prescribe the:

- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources

It furthermore covers Definitions, Recognition, Measurement, Depreciation, Impairment, Compensation for impairment, Transfers, Derecognition, Disclosure, Transitional provisions and Effective date.

The subsequent amendments to the Standard of GRAP on Living and Non-living Resources resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23; and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27

The effective date of the standard is for years beginning on or after April 1, 2020.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is for years beginning on or after April 1, 2019.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the interpretation is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the interpretation until such time as it becomes applicable to the municipality's operations.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

3. Investment property

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	23,739,702	-	23,739,702	22,440,348	-	22,440,348

Reconciliation of investment property - 2022

	Opening balance	Fair value adjustments	Total
Investment property	22,440,348	1,299,354	23,739,702

Reconciliation of investment property - 2021

	Opening balance	Total
Investment property	22,440,348	22,440,348

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.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

In the exceptional cases when the municipality has to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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3. Investment property (continued)

- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
 - the fact that the entity has disposed of investment property not carried at fair value,
 - the carrying amount of that investment property at the time of sale, and
 - the amount of gain or loss recognised.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	127,042,300	-	127,042,300	127,042,300	-	127,042,300
Buildings	30,436,677	(23,011,167)	7,425,510	30,436,677	(23,011,167)	7,425,510
Infrastructure	548,136,476	(278,220,179)	269,916,297	534,956,214	(278,220,179)	256,736,035
Community	118,962,160	(94,739,545)	24,222,615	118,962,160	(94,739,546)	24,222,614
Other property, plant and equipment	4,899,999	(4,364,018)	535,981	4,899,999	(4,364,018)	535,981
Leased infrastructure	5,672,355	(2,390,448)	3,281,907	5,672,355	(2,390,448)	3,281,907
Work in progress	69,724,776	-	69,724,776	72,424,047	-	72,424,047
Total	904,874,743	(402,725,357)	502,149,386	894,393,752	(402,725,358)	491,668,394

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Transfers	Total
Land	127,042,300	-	-	127,042,300
Buildings	7,425,510	-	-	7,425,510
Infrastructure	256,736,035	13,180,262	-	269,916,297
Community	24,222,614	1	-	24,222,615
Other property, plant and equipment	535,981	-	-	535,981
Leased infrastructure	3,281,907	-	-	3,281,907
Work in progress	72,424,047	1,861,576	(4,560,847)	69,724,776
	491,668,394	15,041,839	(4,560,847)	502,149,386

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Transfers	Depreciation	Impairment loss	Total
Land	127,042,300	-	-	-	-	127,042,300
Buildings	8,042,418	-	-	(616,908)	-	7,425,510
Infrastructure	267,599,633	-	4,959,702	(15,574,073)	(249,227)	256,736,035
Community	27,971,479	860,627	-	(3,248,859)	(1,360,633)	24,222,614
Other property, plant and equipment	929,122	941,946	-	(1,335,087)	-	535,981
Leased infrastructure	4,292,574	-	-	(1,010,667)	-	3,281,907
Work in progress	60,386,752	16,996,997	(4,959,702)	-	-	72,424,047
	-	-	-	-	-	-
	496,264,278	18,799,570	-	(21,785,594)	(1,609,860)	491,668,394

Pledged as security

No property, plant and equipment has been pledged as security for any financial liability at year-end.

Assets subject to finance lease (Net carrying amount)

Office equipment	3,281,907	3,281,907
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Reconciliation of Work-in-Progress 2022

	Included within Infrastructure	Total
Opening balance	72,424,047	72,424,047
Additions/capital expenditure	4,854,101	4,854,101
Transferred to completed items	(14,001,252)	(14,001,252)
	63,276,896	63,276,896

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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4. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Total
Opening balance	60,386,752	60,386,752
Additions/capital expenditure	16,996,997	16,996,997
Transferred to completed items	(4,959,702)	(4,959,702)
	72,424,047	72,424,047

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.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

5. Intangible assets

	2022			2021		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	1,005,665	(973,860)	31,805	1,005,665	(937,890)	67,775

Reconciliation of intangible assets - 2022

	Opening balance	Amortisation	Total
Computer software, other	67,775	(35,970)	31,805

Reconciliation of intangible assets - 2021

	Opening balance	Amortisation	Total
Computer software, other	102,765	(34,990)	67,775

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
6. Payables from exchange transactions		
Trade payables	116,440,753	117,452,169
Payments received in advanced - contract in process	3,292,609	3,437,430
Accrued leave pay	2,952,453	3,080,207
Accrued bonus	576,656	518,630
Salary control	25,366,331	20,602,877
Retentions payable	5,325,182	5,325,182
Deferred revenue - prepaid electricity sales	13,114	13,114
Suspense accounts	12,903,387	5,268,883
	166,870,485	155,698,492
7. Consumer deposits		
Electricity	347,032	347,032
Water	489,815	442,885
	836,847	789,917
8. Employee benefit obligations		
9. Inventories		
Water for distribution	30,407	28,767
10. Receivables from exchange transactions		
Prepaid sales receivable	4,932	5,815
11. Statutory receivables from exchange transactions		
VAT	3,271,164	4,143,664
12. Consumer debtors		
Gross balances		
Electricity	28,886,311	23,446,981
Water	29,832,971	25,218,106
Sewerage	16,392,186	13,429,808
Refuse	9,609,982	8,232,688
Other (specify)	3,212,383	2,835,494
	87,933,833	73,163,077
Less: Allowance for impairment		
Electricity	(19,354,421)	(19,354,421)
Water	(23,947,792)	(23,947,792)
Sewerage	(12,573,776)	(12,573,776)
Refuse	(7,776,742)	(7,776,742)
Other (specify)	(2,672,931)	(2,672,931)
	(66,325,662)	(66,325,662)

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
12. Consumer debtors (continued)		
Net balance		
Electricity	9,531,890	4,092,560
Water	5,885,179	1,270,314
Sewerage	3,818,410	856,032
Refuse	1,833,240	455,946
Other (specify)	539,452	162,563
	21,608,171	6,837,415
Electricity		
Current (0 -30 days)	1,551,179	887,261
31 - 60 days	768,704	476,646
61 - 90 days	1,038,680	313,688
> 120 days	25,312,328	21,769,386
Less: Allowance for impairment	(19,139,001)	(19,354,421)
	9,531,890	4,092,560
Water		
Current (0 -30 days)	996,362	851,307
31 - 60 days	456,434	404,868
61 - 90 days	460,075	375,111
> 120 days	27,684,614	23,586,820
Less: Allowance for impairment	(23,712,306)	(23,947,792)
	5,885,179	1,270,314
Sewerage		
Current (0 -30 days)	577,357	512,366
31 - 60 days	285,706	242,906
61 - 90 days	283,503	240,550
> 120 days	15,177,462	12,433,986
Less: Allowance for impairment	(12,505,618)	(12,573,776)
	3,818,410	856,032
Refuse		
Current (0 -30 days)	276,957	257,891
31 - 60 days	137,145	121,922
61 - 90 days	136,198	120,465
> 120 days	9,021,887	7,732,410
Less: Allowance for impairment	(7,738,947)	(7,776,742)
	1,833,240	455,946
Other (sundry)		
Current (0 -30 days)	67,750	79,688
31 - 60 days	33,875	34,421
61 - 90 days	33,875	28,375
> 120 days	2,951,492	2,693,010
Less: Allowance for impairment	(2,547,540)	(2,672,931)
	539,452	162,563
Reconciliation of allowance for impairment		
Balance at beginning of the year	(66,325,662)	(58,112,714)
Contributions to allowance	-	(8,212,948)
	(66,325,662)	(66,325,662)

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
12. Consumer debtors (continued)		
Consumer debtors pledged as security		
No consumer debtors were pledged as security		
13. Statutory receivables from non-exchange transactions		
Gross balances		
Consumer debtors - Rates	18,526,090	15,597,696
Less: Allowance for impairment		
Consumer debtors - Rates	(13,979,898)	(13,979,898)
Net balance		
Consumer debtors - Rates	4,546,192	1,617,798
Rates		
Current (0 -30 days)	576,481	509,204
31 - 60 days	283,705	226,952
61 - 90 days	281,027	219,713
91 - 120 days	17,360,879	14,725,918
121 - 365 days	(13,955,900)	(14,063,989)
	4,546,192	1,617,798
14. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Bank balances	397,783	49,602
Short-term deposits	22,031,837	2,657,714
	22,429,620	2,707,316
15. Finance lease obligation		
Minimum lease payments due		
- within one year	1,580,255	1,436,596
- in second to fifth year inclusive	3,305,583	4,885,839
	4,885,838	6,322,435
less: future finance charges	(1,457,635)	(2,386,506)
Present value of minimum lease payments	3,428,203	3,935,929
Non-current liabilities	2,617,250	3,428,204
Current liabilities	810,954	507,725
	3,428,204	3,935,929

It is municipality policy to lease certain office equipment under finance leases.

The average lease term was 5 years and the average effective borrowing rate was 25% (2021: 25%).

Interest rates are fixed at the contract date. All leases escalate at 10% p.a to 15% and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 4.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant	-	2,485,107
Expanded Public Works Programme	-	83,503
Financial Management Grant	-	496
Water Service Infrastructure Grant	2,136,387	-
	2,136,387	2,569,106

Movement during the year

Balance at the beginning of the year	2,569,106	447,688
Additions during the year	9,769,000	19,897,000
Income recognition during the year	(7,632,613)	(17,327,894)
Transferred to the national revenue fund	(2,569,106)	(447,688)
	2,136,387	2,569,106

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 27 for reconciliation of grants from National/Provincial Government.

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

17. Service concession liabilities

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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18. Provisions

Reconciliation of provisions - 2022

	Opening Balance	Additions	Total
Environmental rehabilitation	24,633,455	6,358,096	30,991,551

Reconciliation of provisions - 2021

	Opening Balance	Additions	Total
Environmental rehabilitation	11,960,203	12,673,252	24,633,455
Non-current liabilities		30,991,551	20,730,669
Current liabilities		-	3,902,786
		30,991,551	24,633,455

The warranty provision represents management's best estimate of the municipality's liability under one period warranties granted on (electrical) (products), based on (prior experience) (and) (industry averages for defective products).

The municipality does not have a permit of licence for any of the landfill sites currently in use and could be liable for a penalty in terms of section 24G of the Environmental Conservation Act.

Liabilities are present obligations arising from past events, the settlement of which is expected to result in an outflow from the municipalities resources embodying economic benefits. The operation of a landfill results in an obligation to rehabilitate the landfill and prevent any further pollution after closure thereof in terms of section 28 of the National Environment Management Act, Act 107 of 1998, section 3(14)-(16) and 4(10) of Government Notice 718 of 3 July 2009 and the landfill permits issued under section 50 of the National Environmental Management: Waste Act, Act 59 of 2008.

The following key assumptions are use in determining the provision value:

GRAP 19 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to the market yields (at the financial position date) on government bonds. The currency and terms of the government bonds should be consistent with the currency and estimated term/life of the landfill site.

19. Revenue

Service charges	18,778,454	15,307,391
Rental of facilities and equipment	696,170	1,322,989
Other income - (rollup)	100,688	140,730
Interest received - investment	138,949	188,757
Property rates	4,495,850	4,174,028
Government grants & subsidies	51,672,719	40,822,582
Public contributions and donations	4,320,710	4,698,833
	80,203,540	66,655,310

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

Service charges	18,778,454	15,307,391
Rental of facilities and equipment	696,170	1,322,989
Other income - (rollup)	100,688	140,730
Interest received - investment	138,949	188,757
	19,714,261	16,959,867

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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19. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue

Property rates	4,495,850	4,174,028
----------------	-----------	-----------

Transfer revenue

Government grants & subsidies	51,672,719	40,822,582
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Public contributions and donations	4,320,710	4,698,833
------------------------------------	-----------	-----------

60,489,279	49,695,443
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20. Service concession arrangements

21. Service charges

Service charges	9,261,225	6,759,604
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Sale of water	4,986,506	4,376,542
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Sewerage and sanitation charges	3,060,187	2,780,101
---------------------------------	-----------	-----------

Refuse removal	1,470,536	1,391,144
----------------	-----------	-----------

18,778,454	15,307,391
-------------------	-------------------

22. Rental of facilities and equipment

Facilities and equipment

Rental of facilities	696,170	1,322,989
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Included in the above rentals are operating lease rentals at straight-lined amounts of R - (2021: R -) as well as contingent rentals of R - (2021: R -).

23. Fines, Penalties and Forfeits

24. Other income

Connection fees	50,633	114,477
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Burial fees	817	1,297
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Copies	402	3,268
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Clearence certificates	9,355	7,033
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Building plans	39,481	14,655
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100,688	140,730
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25. Investment revenue

Interest revenue

Bank	138,949	188,757
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The amount included in Investment revenue arising from exchange transactions amounted to R -.

The amount included in Investment revenue arising from non-exchange transactions amounted to R -.

Total interest income, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to Rxxx (PY: Rxxx).

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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26. Property rates

Rates received

Residential	2,904,345	2,672,631
Commercial	471,666	444,970
State	304,718	287,468
Small holdings and farms	815,121	768,959
	4,495,850	4,174,028

Valuations

Residential	354,389,000	354,389,000
Commercial	24,922,000	24,922,000
Small holdings and farms	801,000	801,000
	380,112,000	380,112,000

Valuations on land and buildings are performed every X years. The last general valuation came into effect on 1 July 20XX. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R - (2021: R -) is applied to property valuations to determine assessment rates. Rebates of -% (2021: -%) are granted to residential and state property owners.

Rates are levied on an annual basis with the final date for payment being (). Interest at prime plus 1% per annum (2021: -%) and a collection fee of -% (2021: -%), is levied on rates outstanding two months after due date.

The new general valuation will be implemented on 01 July 2007.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
27. Government grants & subsidies		
Operating grants		
Equitable share	41,080,106	23,494,688
Financial Management Grant	6,000,000	2,999,504
Library Grant (Provincial Government)	960,000	-
Extended Public Works Programme	269,000	916,497
	48,309,106	27,410,689
Capital grants		
Municipal Infrastructure Grant	3,000,000	13,411,893
Water Service Infrastructure Grant	363,613	-
	3,363,613	13,411,893
	51,672,719	40,822,582
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	7,229,000	17,327,894
Unconditional grants received	27,568,106	23,494,688
	34,797,106	40,822,582
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
Current-year receipts	24,999,000	23,047,000
Transfer from surrendered conditional grants	2,569,106	447,688
Recognised as revenue	(27,568,106)	(23,494,688)
	-	-
Municipal Infrastructure Grant		
Balance unspent at beginning of year	2,485,107	25,091
Current-year receipts	3,000,000	15,897,000
Conditions met - transferred to revenue	(3,000,000)	(13,411,893)
Transferred to equitable share (National revenue fund)	(2,485,107)	(25,091)
	-	2,485,107
Conditions still to be met - remain liabilities (see note 16).		
Extended Public Works Programme		
Balance unspent at beginning of year	83,503	-
Current-year receipts	269,000	1,000,000
Conditions met - transferred to revenue	(269,000)	(916,497)
Transferred to equitable share (National revenue fund)	(83,503)	-
	-	83,503
Conditions still to be met - remain liabilities (see note 16).		
Financial Management Grant		
Balance unspent at beginning of year	496	-

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
27. Government grants & subsidies (continued)		
Current-year receipts	3,000,000	3,000,000
Conditions met - transferred to revenue	(3,000,000)	(2,999,504)
Transferred to equitable share (National revenue fund)	(496)	-
	-	496
Conditions still to be met - remain liabilities (see note 16).		
Demand Side Management Grant		
Balance unspent at beginning of year	-	422,597
Transferred to equitable share (National revenue fund)	-	(422,597)
	-	-
Water Service Infrastructure Grant		
Current-year receipts	2,500,000	-
Conditions met - transferred to revenue	(363,613)	-
	2,136,387	-
Conditions still to be met - remain liabilities (see note 16).		
28. Public contributions and donations		
Northern Cape: Department of Roads and Public Works (Infrastructural assets transfer)	4,320,710	4,698,833
29. Employee related costs		
Basic	17,644,146	20,471,519
Bonus	1,117,696	1,354,181
Medical aid - company contributions	299,111	529,214
UIF	144,815	181,374
SDL	40,411	160,086
Other payroll levies	9,611	5,900
Leave pay provision charge	(127,754)	333,203
Defined contribution plans	155,000	168,000
Travel, motor car, accommodation, subsistence and other allowances	27,450	81,154
Overtime payments	419,048	945,749
Acting allowances	27,655	229,039
Housing benefits and allowances	885,422	1,068,677
Termination benefits	2,199,485	2,883,953
	22,842,096	28,412,049
30. Remuneration of councillors		
Councillors	3,220,491	2,958,442
31. Depreciation and amortisation		
Property, plant and equipment	-	19,193,908
Intangible assets	35,970	34,990
	35,970	19,228,898

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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32. Impairment loss

[Disclose the following information for the aggregate impairment losses and the aggregate reversals of impairment losses recognised during the period for which no information has otherwise been disclosed:]

The main classes of assets affected by impairment losses are:

The main classes of assets affected by reversals of impairment losses are:

The main events and circumstances that led to the recognition of these impairment losses are as follows:

The main events and circumstances that led to the reversals of these impairment losses are as follows:

33. Finance costs

Interest on convertible instruments	2,002,297	6,983,477
Finance leases	928,870	1,023,715
Available-for-sale debt instruments	218,000	297,000
	3,149,167	8,304,192

Capitalisation rates used during the period were -% on specific borrowings for capital projects and -% being the weighted average cost of funds borrowed generally by the municipality.

Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R - (2021: R -).

34. Auditors' remuneration

Expenses	3,801,610	998,682
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35. Debt impairment

Contributions to debt impairment provision	623	9,984,081
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36. General expenses

Advertising	-	2,715
Auditors remuneration	3,801,610	998,682
Bank charges	92,089	157,324
Consulting and professional fees	4,663,741	3,199,620
Entertainment	-	27,159
Hire	32,849	298,936
Insurance	-	857,784
IT expenses	21,000	114,899
Fuel and oil	233,668	300,567
Postage and courier	2,488	6,306
Printing and stationery	60,507	90,778
Protective clothing	-	84,981
Repairs and maintenance	26,755	3,695,212
Subscriptions and membership fees	500,000	500,000
Telephone and fax	(1,305,675)	1,347,162
Transport and freight	45,809	(161,181)
Travel - local	26,929	439,849
Chemicals	155,717	1,459,954
	8,357,487	13,420,747

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
37. Bulk purchases		
Electricity - Eskom	12,251,130	7,849,667
Water	447,713	316,238
	12,698,843	8,165,905
38. Cash generated from operations		
Surplus (deficit)	32,684,504	(32,411,435)
Adjustments for:		
Depreciation and amortisation	35,970	19,228,898
Gain on sale of assets and liabilities	-	8,134,309
Fair value adjustments	(1,299,354)	-
Debt impairment	623	9,984,081
Movements in retirement benefit assets and liabilities	(1,027,000)	885,000
Movements in provisions	9,852,136	10,429,538
Changes in working capital:		
Inventories	(1,640)	(346)
Receivables from exchange transactions	883	6,913
Consumer debtors	(14,771,379)	(11,615,311)
Other receivables from non-exchange transactions	(2,928,394)	(292,262)
Payables from exchange transactions	13,165,874	13,482,656
VAT	872,500	2,725,833
Unspent conditional grants and receipts	(432,719)	2,121,418
Consumer deposits	46,930	133,590
	36,198,934	22,812,882
39. Operating surplus (deficit)		
Operating surplus (deficit) for the year is stated after accounting for the following:		
Loss on sale of property, plant and equipment	-	(8,134,309)
Amortisation on intangible assets	35,970	34,990
Depreciation on property, plant and equipment	-	19,193,908
Employee costs	26,062,587	31,370,491
40. Service in-kind		
41. Fair value adjustments		
Investment property (Fair value model)	1,299,354	-
42. Financial instruments disclosure		
43. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	10,646,472	760,096
Total capital commitments		
Already contracted for but not provided for	10,646,472	760,096

This committed expenditure relates to property and will be financed by government grants as per the DoRA allocation.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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44. Related parties

Relationships	Refer to accounting officers' report note
Accounting Officer	Refer to note
Controlled entities	Refer to note
Joint ventures	Refer to note
Associates	Name (Proprietary) Limited
Shareholder with significant influence	Name (Proprietary) Limited
Shareholder with joint control	Name
Close family member of key management	Name (Proprietary) Limited of [Mr key management]
Joint venture of key management	Name (Proprietary) Limited of [Mr key management]
Associate of close family member of key management	Name Share Trust of Entity
Post employment benefit plan for employees of entity and/or other related parties	Name Share Trust of [Related party 1]
	Name Share Trust of Entity [Related party 1]
Post employment benefit plan for employees of a related party of a close family member of key management	Name Share Trust of [Mr key management]
Members of key management	Acting Municipal Manager
	Acting Chief Financial Officer

Related party balances

[State terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement]

[State details of any guarantees given or received]

Key management information

45. Risk management

46. Going concern

We draw attention to the fact that at June 30, 2022, the municipality had an accumulated surplus (deficit) of R 371,138,905 and that the municipality's total liabilities exceed its assets by R 371,138,905.

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 and that the subordination agreement referred to in note XX of these annual financial statements will remain in force for so long as it takes to restore the solvency of the municipality.

47. Events after the reporting date

Disclose for each material category of non-adjusting events after the reporting date:

- nature of the event.
- estimation of its financial effect or a statement that such an estimation cannot be made.

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
48. Unauthorised expenditure		
49. Fruitless and wasteful expenditure		
50. Irregular expenditure		
Opening balance as previously reported	138,008,284	125,670,583
Add: Irregular expenditure - current	4,869,853	12,337,701
Closing balance	142,878,137	138,008,284

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand		2022	2021
50. Irregular expenditure (continued)			
Incidents/cases identified/reported in the current year include those listed below:			
	Disciplinary steps taken/criminal proceedings		
Competitive bidding not invited	Management is an investigation to the nature, accuracy and completeness of the irregular expenditure as disclosed and as required in the MFMA	504,444	-
Three written quotations not invited	Management is an investigation to the nature, accuracy and completeness of the irregular expenditure as disclosed and as required in the MFMA	338,713	-
		843,157	-
51. Additional disclosure in terms of Municipal Finance Management Act			
Contributions to organised local government			
Opening balance	4,612,449	4,112,449	
Current year subscription / fee	500,000	500,000	
	5,112,449	4,612,449	
Audit fees			
Opening balance	5,682,277	4,835,050	
Current year subscription / fee	6,393,518	847,227	
Credit notes	(1,185,655)	-	
	10,890,140	5,682,277	
PAYE and UIF			
Opening balance	1,664,159	956,277	
Current year subscription / fee	3,470,290	3,812,279	
Amount paid - current year	-	(2,148,120)	
Amount paid - previous years	(552,904)	(956,277)	
	4,581,545	1,664,159	

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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51. Additional disclosure in terms of Municipal Finance Management Act (continued)

Pension and Medical Aid Deductions

Opening balance	15,085,249	10,801,636
Current year subscription / fee	4,546,833	5,007,401
Amount paid - previous years	(433,761)	(723,788)
	19,198,321	15,085,249

VAT

Input VAT receivable	13,822,673	12,957,449
Output VAT payable	10,551,509	8,813,785
	24,374,182	21,771,234

VAT output payables and VAT input receivables are shown in note 11.

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at June 30, 2022:

June 30, 2022	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor D Kelem	114	54,997	55,111
Councillor JMZ Posthumus	2,167	43,739	45,906
Councillor T Ramakwa	2,568	103,231	105,799
Mayor Al Samson	2,051	48,900	50,951
Councillor NB Booysen	131	26,544	26,675
Councillor V Nieuwehuizen	1,176	4,232	5,408
Councillor CS Papashe	275	631	906
	8,482	282,274	290,756

June 30, 2021	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mayor Al Samson	1,298	41,783	43,081
Councillor SF Jantjies	802	-	802
Councillor JMZ Posthumus	2,885	32,129	35,014
Councillor H Booysen	1,080	8,472	9,552
Councillor M Bitterbos	1,132	3,661	4,793
Councillor D Kelem	1,442	52,673	54,115
	8,639	138,718	147,357

Renosterberg Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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52. 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.

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

2022	Less than R 30 000	Between R 30 001 and R 100 000	Between R 100 001 and R 2 000 000
Emergency	-	112,198	423,497
Sole Provider	184,491	-	-
	184,491	112,198	423,497

2021	Less than R 30 000	Between R 30 001 and R 100 000	Between R 100 001 and R 2 000 000
Sole Provider	218,982	208,358	-

53. Budget differences

Material differences between budget and actual amounts

The excess of actual expenditure over the final budget of 15% (25% over approved budget) for the Health function was due to expenditures above the level approved by legislative action in response to the earthquake. There were no other material differences between the final budget and the actual amounts.