



Magareng Local Municipality  
(Registration number NC093)  
Annual Financial Statements  
for the year ended 30 June 2024

# Magareng Local Municipality

(Registration number NC093)

Annual Financial Statements for the year ended 30 June 2024

## General Information

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|----------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Legal form of entity</b>                        | Municipality                                                                                                                                                                                                                                                                                                                                 |
| <b>Nature of business and principal activities</b> | Magareng Municipality is a local municipality performing functions as set out in the Constitution, Act 105 of 1996                                                                                                                                                                                                                           |
| <b>Mayoral committee</b>                           |                                                                                                                                                                                                                                                                                                                                              |
| Mayor                                              | Ms N Mase                                                                                                                                                                                                                                                                                                                                    |
| Speaker                                            | BG Plata                                                                                                                                                                                                                                                                                                                                     |
| Councillors                                        | B Mokomela (Ward 1)<br>MF Mokitimi (Ward 2)<br>CM Mere (Ward 3)<br>LO Amose (Ward 4)<br>P Namelang (P.R Councillor EFF) - Until October 2023<br>BC Mahapa (P.R Councillor EFF)<br>KC Mekhoa (P.R Councillor EFF)<br>P Namelang (P.R Councillor EFF)<br>L Valtyn (P.R Councillor PA)<br>D Watson (P.R Councillor DA)<br>WJ Potgieter (Ward 5) |
| <b>Grading of local authority</b>                  | Category B as defined by the Municipal Structures Act, Act no 117 of 1998                                                                                                                                                                                                                                                                    |
| <b>Accounting Officer</b>                          | Mr T Thage - Acting since 1 July 2022                                                                                                                                                                                                                                                                                                        |
| <b>Chief Finance Officer (CFO)</b>                 | Ms KV Khaziwa - Acting since 13 December 2022                                                                                                                                                                                                                                                                                                |
| <b>Registered office</b>                           | Magrieta Prinsloo Street<br>Warrenton<br>8530                                                                                                                                                                                                                                                                                                |
| <b>Business address</b>                            | Magrieta Prinsloo Street<br>Warrenton<br>8530                                                                                                                                                                                                                                                                                                |
| <b>Postal address</b>                              | PO Box 10<br>Warrenton<br>8530                                                                                                                                                                                                                                                                                                               |
| <b>Bankers</b>                                     | Absa Bank of South Africa                                                                                                                                                                                                                                                                                                                    |
| <b>Auditors</b>                                    | The Auditor-General of South Africa                                                                                                                                                                                                                                                                                                          |
| <b>Attorneys</b>                                   | Matthews and Partners<br>Frances Baard DM Legal and Compliance department<br>State Attorney<br>Frances Baard DM Legal and Compliance department                                                                                                                                                                                              |
| <b>Members of Audit Committee</b>                  | Mr GR Botha (Chairperson)<br>Mr Masikela SP<br>Mr T Mudamburi<br>Mr Masikela SP                                                                                                                                                                                                                                                              |

# Magareng Local Municipality

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## General Information

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### Enabling Legislation

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)  
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  
Municipal Regulations on Standard Chart of Accounts  
Municipal Budget and Reporting Regulations

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### Abbreviations used:

|         |                                                                  |
|---------|------------------------------------------------------------------|
| COID    | Compensation for Occupational Injuries and Diseases              |
| DoRA    | Division of Revenue Act                                          |
| DBSA    | Development Bank of South Africa                                 |
| EPWP    | Expanded Public Works Programme                                  |
| GRAP    | Generally Recognised Accounting Practice                         |
| FMG     | Finance Management Grant                                         |
| IAS     | International Accounting Standards                               |
| IDP     | Integrated Development Plan                                      |
| CIGFARO | Chartered Institute of Government Finance, Audit & Risk Officers |
| INEP    | Integrated National Electrification Programme                    |
| NERSA   | National Energy Regulator of South Africa                        |
| MSA     | Municipal Systems Act                                            |
| MFMA    | Municipal Finance Management Act                                 |
| MIG     | Municipal Infrastructure Grant (Previously CMIP)                 |
| MSIG    | Municipal System Improvement Grant                               |
| PAYE    | Pay As You Earn                                                  |
| SARS    | South African Revenue Services                                   |
| SALGBC  | South African Bargaining Council                                 |
| VAT     | Value Added Tax                                                  |

# Magareng Local Municipality

(Registration number NC093)

Annual Financial Statements for the year ended 30 June 2024

## Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2025 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

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

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 6.

The annual financial statements set out on page 6, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2024 and were signed on its behalf by:

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**Mr T Thage**  
**Acting Municipal Manager**

# Magareng Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Accounting Officer's Report

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The accounting officer submits his report for the year ended 30 June 2024.

### 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 Magareng 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 3 816 921 (2023: deficit R 1 904 661)

### 2. Going concern

We draw attention to the fact that at 30 June 2024, the municipality had an accumulated surplus (deficit) of R 211 553 999 and that the municipality's total liabilities exceed its assets by R 211 553 999.

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 2025 and in 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 operation existing 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 is evident from the Equitable Share allocations as published in terms of the Division of Revenue Act (Act 1 of 2016).

For details of managements assumptions with respect to the applicability of the going concern assumption refer to note 43

### 3. Subsequent events

Matters arising since the end of the financial year have been disclosed on note 50.

### 4. Accounting Officers' interest in contracts

No matters to report.

### 5. Accounting policies

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

### 6. Accounting Officer

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

|            |               |                       |
|------------|---------------|-----------------------|
| Name       | Nationality   | Changes               |
| Mr T Thage | South African | Appointed 1 July 2022 |

### 7. Auditors

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

# Magareng Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Statement of Financial Position as at 30 June 2024

| Figures in Rand                                      | Note(s) | 2024               | 2023               |
|------------------------------------------------------|---------|--------------------|--------------------|
| <b>Assets</b>                                        |         |                    |                    |
| <b>Current Assets</b>                                |         |                    |                    |
| Inventories                                          | 3       | 120 974            | 115 736            |
| Statutory receivables from non-exchange transactions | 4       | 9 266 556          | 10 419 571         |
| Statutory receivables from exchange transactions     | 5       | 42 384 029         | 35 226 185         |
| Receivables from exchange transactions               | 6       | 4 640 982          | 23 854 350         |
| Cash and cash equivalents                            | 7       | 1 104 154          | 733 583            |
|                                                      |         | <b>57 516 695</b>  | <b>70 349 425</b>  |
| <b>Non-Current Assets</b>                            |         |                    |                    |
| Investment property                                  | 8       | 24 867 500         | 24 867 500         |
| Property, plant and equipment                        | 9       | 455 659 724        | 423 347 386        |
| Intangible assets                                    | 10      | 12 779             | 9 895              |
| Heritage assets                                      | 11      | 370 999            | 370 999            |
|                                                      |         | <b>480 911 002</b> | <b>448 595 780</b> |
| <b>Total Assets</b>                                  |         | <b>538 427 697</b> | <b>518 945 205</b> |
| <b>Liabilities</b>                                   |         |                    |                    |
| <b>Current Liabilities</b>                           |         |                    |                    |
| Finance lease obligation                             | 12      | 140 157            | 13 016             |
| Payables from exchange transactions                  | 13      | 307 994 716        | 284 816 998        |
| Consumer deposits                                    | 14      | 1 063 096          | 1 039 938          |
| Employee benefit obligation                          | 15      | 7 391 945          | 7 100 866          |
| Unspent conditional grants and receipts              | 16      | 805 453            | 9 019 447          |
|                                                      |         | <b>317 395 367</b> | <b>301 990 265</b> |
| <b>Non-Current Liabilities</b>                       |         |                    |                    |
| Finance lease obligation                             | 12      | 268 755            | 105 060            |
| Employee benefit obligation                          | 17      | 4 390 000          | 4 404 000          |
| Provisions                                           | 18      | 4 819 576          | 4 708 803          |
|                                                      |         | <b>9 478 331</b>   | <b>9 217 863</b>   |
| <b>Total Liabilities</b>                             |         | <b>326 873 698</b> | <b>311 208 128</b> |
| <b>Net Assets</b>                                    |         | <b>211 553 999</b> | <b>207 737 077</b> |
| Accumulated surplus                                  |         | 211 553 999        | 207 737 077        |
| <b>Total Net Assets</b>                              |         | <b>211 553 999</b> | <b>207 737 077</b> |

# Magareng Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Statement of Financial Performance

| Figures in Rand                                     | Note(s) | 2024                 | 2023                 |
|-----------------------------------------------------|---------|----------------------|----------------------|
| <b>Revenue</b>                                      |         |                      |                      |
| <b>Revenue from exchange transactions</b>           |         |                      |                      |
| Service charges                                     | 19      | 32 105 066           | 32 815 971           |
| Interest received (trading)                         |         | 19 766 642           | 13 928 848           |
| Agency services                                     | 20      | 75 602               | 80 520               |
| Rental income                                       | 21      | 14 448               | 2 521                |
| Commission                                          | 21      | 43 318               | 34 802               |
| Other income                                        | 22      | 1 401 661            | 659 413              |
| Interest received - investment                      | 23      | 357 474              | 10 944               |
| <b>Total revenue from exchange transactions</b>     |         | <b>53 764 211</b>    | <b>47 533 019</b>    |
| <b>Revenue from non-exchange transactions</b>       |         |                      |                      |
| <b>Taxation revenue</b>                             |         |                      |                      |
| Property rates                                      | 24      | 12 915 506           | 12 263 191           |
| Licences and Permits (Non-exchange)                 | 25      | 178 782              | 287 541              |
| Interest - Taxation revenue                         | 26      | 5 530 323            | 3 020 068            |
| <b>Transfer revenue</b>                             |         |                      |                      |
| Government grants & subsidies                       | 27      | 131 233 479          | 95 298 421           |
| Public contributions and donations                  | 28      | -                    | 1 672 536            |
| Fines, Penalties and Forfeits                       | 29      | 394 732              | 586 325              |
| Services in-kind                                    | 30      | 207 600              | -                    |
| Contributed Property, plant and equipment           | 56      | 1 166 879            | 1 132 989            |
| Debt Relief                                         | 31      | 5 936 376            | -                    |
| <b>Total revenue from non-exchange transactions</b> |         | <b>157 563 677</b>   | <b>114 261 071</b>   |
| <b>Total revenue</b>                                | 32      | <b>211 327 888</b>   | <b>161 794 090</b>   |
| <b>Expenditure</b>                                  |         |                      |                      |
| Employee related costs                              | 33      | (51 783 046)         | (52 887 749)         |
| Remuneration of councillors                         | 34      | (4 457 738)          | (4 672 680)          |
| Depreciation and amortisation                       | 35      | (17 002 832)         | (22 835 726)         |
| Finance costs                                       | 36      | (1 957 502)          | (7 549 244)          |
| Debt Impairment                                     | 37      | (63 729 369)         | (17 959 625)         |
| Bulk purchases                                      | 38      | (30 079 024)         | (29 777 192)         |
| Contracted services                                 | 39      | (10 574 562)         | (7 046 821)          |
| General Expenses                                    | 40      | (14 286 874)         | (10 388 814)         |
| Inventory consumed                                  | 41      | (9 290 047)          | (6 212 658)          |
| <b>Total expenditure</b>                            |         | <b>(203 160 994)</b> | <b>(159 330 509)</b> |
| <b>Operating surplus</b>                            |         | <b>8 166 894</b>     | <b>2 463 581</b>     |
| Loss on disposal of assets and liabilities          |         | (3 105 343)          | (4 503 173)          |
| Actuarial gains/losses                              | 17      | 175 147              | 382 156              |
| Impairment loss                                     |         | (1 419 777)          | (247 225)            |
|                                                     |         | <b>(4 349 973)</b>   | <b>(4 368 242)</b>   |
| <b>Surplus (deficit) for the year</b>               |         | <b>3 816 921</b>     | <b>(1 904 661)</b>   |

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## Statement of Changes in Net Assets

| Figures in Rand                             | Accumulated<br>surplus / deficit | Total net<br>assets |
|---------------------------------------------|----------------------------------|---------------------|
| Opening balance as previously reported      | 216 120 544                      | 216 120 544         |
| Adjustments                                 |                                  |                     |
| Correction of errors 57                     | (6 478 806)                      | (6 478 806)         |
| <b>Balance at 01 July 2022 as restated*</b> | <b>209 641 738</b>               | <b>209 641 738</b>  |
| Changes in net assets                       |                                  |                     |
| Surplus for the year                        | (1 904 661)                      | (1 904 661)         |
| Total changes                               | (1 904 661)                      | (1 904 661)         |
| <b>Balance at 01 July 2023</b>              | <b>207 737 078</b>               | <b>207 737 078</b>  |
| Changes in net assets                       |                                  |                     |
| Surplus for the year                        | 3 816 921                        | 3 816 921           |
| Total changes                               | 3 816 921                        | 3 816 921           |
| <b>Balance at 30 June 2024</b>              | <b>211 553 999</b>               | <b>211 553 999</b>  |

# Magareng Local Municipality

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## Cash Flow Statement

| Figures in Rand                                             | Note(s) | 2024                       | 2023                       |
|-------------------------------------------------------------|---------|----------------------------|----------------------------|
| <b>Cash flows from operating activities</b>                 |         |                            |                            |
| <b>Receipts</b>                                             |         |                            |                            |
| Sale of goods and services                                  |         | 9 933 263                  | 9 614 250                  |
| Grants                                                      |         | 124 186 364                | 100 248 404                |
| Interest income                                             |         | 25 654 439                 | 16 959 860                 |
|                                                             |         | <u>159 774 066</u>         | <u>126 822 514</u>         |
| <b>Payments</b>                                             |         |                            |                            |
| Employee costs                                              |         | (55 963 705)               | (57 113 436)               |
| Suppliers                                                   |         | (48 215 873)               | (34 370 715)               |
| Finance costs                                               |         | (1 332 295)                | (7 108 861)                |
|                                                             |         | <u>(105 511 873)</u>       | <u>(98 593 012)</u>        |
| <b>Net cash flows from operating activities</b>             | 44      | <u><b>54 262 193</b></u>   | <u><b>28 229 502</b></u>   |
| <b>Cash flows from investing activities</b>                 |         |                            |                            |
| Purchase of property, plant and equipment                   | 9       | (54 168 863)               | (27 855 509)               |
| Purchase of other intangible assets                         | 10      | (13 595)                   | -                          |
| <b>Net cash flows from investing activities</b>             |         | <u><b>(54 182 458)</b></u> | <u><b>(27 855 509)</b></u> |
| <b>Cash flows from financing activities</b>                 |         |                            |                            |
| Finance lease payments                                      |         | <u>290 836</u>             | <u>118 076</u>             |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |         | <u><b>370 571</b></u>      | <u><b>492 069</b></u>      |
| Cash and cash equivalents at the beginning of the year      |         | 733 583                    | 241 514                    |
| <b>Cash and cash equivalents at the end of the year</b>     | 7       | <u><b>1 104 154</b></u>    | <u><b>733 583</b></u>      |

The accounting policies on pages 16 to 50 and the notes on pages 51 to 114 form an integral part of the annual financial statements.

# Magareng Local Municipality

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## Statement of Comparison of Budget and Actual Amounts

Budget on Cash 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                                 | 60 384 167        | (23 151 584)        | <b>37 232 583</b> | 32 105 066        | <b>(5 127 517)</b> | 61, X1 |
| Rental of facilities and equipment              | 6 040             | (1 415)             | <b>4 625</b>      | -                 | <b>(4 625)</b>     | 61, X2 |
| Interest received (trading)                     | 13 631 696        | 9 617 812           | <b>23 249 508</b> | 19 766 642        | <b>(3 482 866)</b> | 61, X3 |
| Agency services                                 | -                 | -                   | -                 | 75 602            | <b>75 602</b>      | 61, X4 |
| Rental income                                   | -                 | -                   | -                 | 14 448            | <b>14 448</b>      | 61, X5 |
| Commission                                      | -                 | -                   | -                 | 43 318            | <b>43 318</b>      | 61, X7 |
| Other income                                    | 694 140           | 189 807             | <b>883 947</b>    | 1 401 661         | <b>517 714</b>     | 61, X8 |
| Interest received - investment                  | -                 | -                   | -                 | 357 474           | <b>357 474</b>     | 61, X9 |
| <b>Total revenue from exchange transactions</b> | <b>74 716 043</b> | <b>(13 345 380)</b> | <b>61 370 663</b> | <b>53 764 211</b> | <b>(7 606 452)</b> |        |

##### Revenue from non-exchange transactions

##### Taxation revenue

|                                     |            |           |                   |            |                    |         |
|-------------------------------------|------------|-----------|-------------------|------------|--------------------|---------|
| Property rates                      | 13 925 520 | (1)       | <b>13 925 519</b> | 12 915 506 | <b>(1 010 013)</b> | 61, X10 |
| Licences and Permits (Non-exchange) | 134 600    | (10 500)  | <b>124 100</b>    | 178 782    | <b>54 682</b>      | 61, X11 |
| Interest - Taxation revenue         | 4 797 504  | 3 051 871 | <b>7 849 375</b>  | 5 530 323  | <b>(2 319 052)</b> | 61, X12 |

##### Transfer revenue

|                                              |             |            |                    |             |                    |         |
|----------------------------------------------|-------------|------------|--------------------|-------------|--------------------|---------|
| Government grants & subsidies                | 120 455 000 | 11 567 000 | <b>132 022 000</b> | 131 233 479 | <b>(788 521)</b>   | 61, X13 |
| Public contributions and donations           | 3 000 000   | 1 745 000  | <b>4 745 000</b>   | -           | <b>(4 745 000)</b> | 61, X14 |
| Fines, Penalties and Forfeits                | -           | -          | -                  | 394 732     | <b>394 732</b>     | 61, X15 |
| Revenue from service concession arrangements | -           | -          | -                  | 207 600     | <b>207 600</b>     |         |
| Contributed Property, plant and equipment    | -           | -          | -                  | 1 166 879   | <b>1 166 879</b>   | 61, X16 |
| Other transfer revenue 2                     | -           | -          | -                  | 5 936 376   | <b>5 936 376</b>   |         |

|                                                     |                    |                   |                    |                    |                    |  |
|-----------------------------------------------------|--------------------|-------------------|--------------------|--------------------|--------------------|--|
| <b>Total revenue from non-exchange transactions</b> | <b>142 312 624</b> | <b>16 353 370</b> | <b>158 665 994</b> | <b>157 563 677</b> | <b>(1 102 317)</b> |  |
| <b>Total revenue</b>                                | <b>217 028 667</b> | <b>3 007 990</b>  | <b>220 036 657</b> | <b>211 327 888</b> | <b>(8 708 769)</b> |  |

#### Expenditure

|                                          |              |             |                     |              |                     |         |
|------------------------------------------|--------------|-------------|---------------------|--------------|---------------------|---------|
| Employee related costs                   | (53 708 754) | -           | <b>(53 708 754)</b> | (51 783 046) | <b>1 925 708</b>    | 61, X17 |
| Remuneration of councillors              | (4 807 054)  | (805 284)   | <b>(5 612 338)</b>  | (4 457 738)  | <b>1 154 600</b>    | 61, X18 |
| Depreciation and amortisation            | (25 953 554) | 1 000       | <b>(25 952 554)</b> | (17 002 832) | <b>8 949 722</b>    | 61, X19 |
| Impairment loss/ Reversal of impairments | -            | -           | -                   | (1 419 777)  | <b>(1 419 777)</b>  | 61, X20 |
| Finance costs                            | -            | -           | -                   | (1 957 502)  | <b>(1 957 502)</b>  | 61, X21 |
| Debt Impairment                          | (35 390 971) | -           | <b>(35 390 971)</b> | (63 729 369) | <b>(28 338 398)</b> | 61, X22 |
| Inventory consumed                       | (12 920 000) | 100 000     | <b>(12 820 000)</b> | (9 290 047)  | <b>3 529 953</b>    | 61, X23 |
| Bulk purchases                           | (25 000 000) | 1 150 000   | <b>(23 850 000)</b> | (30 079 024) | <b>(6 229 024)</b>  | 61, X24 |
| Contracted Services                      | (9 593 930)  | (1 335 170) | <b>(10 929 100)</b> | (10 574 562) | <b>354 538</b>      | 61, X25 |
| Loss on disposal of assets               | -            | (5 171 767) | <b>(5 171 767)</b>  | -            | <b>5 171 767</b>    | 61, X27 |

## Magareng Local Municipality

(Registration number NC093)

Annual Financial Statements for the year ended 30 June 2024

### Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

|                                                                                                      | Approved<br>budget   | Adjustments         | Final Budget         | Actual amounts<br>on comparable<br>basis | Difference<br>between final<br>budget and<br>actual | Reference |
|------------------------------------------------------------------------------------------------------|----------------------|---------------------|----------------------|------------------------------------------|-----------------------------------------------------|-----------|
| Figures in Rand                                                                                      |                      |                     |                      |                                          |                                                     |           |
| General Expenses                                                                                     | (10 299 456)         | (7 289 886)         | <b>(17 589 342)</b>  | (14 286 874)                             | <b>3 302 468</b>                                    | 61, X28   |
| <b>Total expenditure</b>                                                                             | <b>(177 673 719)</b> | <b>(13 351 107)</b> | <b>(191 024 826)</b> | <b>(204 580 771)</b>                     | <b>(13 555 945)</b>                                 |           |
| <b>Operating surplus</b>                                                                             | <b>39 354 948</b>    | <b>(10 343 117)</b> | <b>29 011 831</b>    | <b>6 747 117</b>                         | <b>(22 264 714)</b>                                 |           |
| Loss on disposal of assets and liabilities                                                           | -                    | -                   | -                    | (3 105 343)                              | <b>(3 105 343)</b>                                  | 61, X29   |
| Actuarial gains/losses                                                                               | -                    | -                   | -                    | 175 147                                  | <b>175 147</b>                                      | 61, X30   |
|                                                                                                      | -                    | -                   | -                    | <b>(2 930 196)</b>                       | <b>(2 930 196)</b>                                  |           |
| <b>Surplus before taxation</b>                                                                       | <b>39 354 948</b>    | <b>(10 343 117)</b> | <b>29 011 831</b>    | <b>3 816 921</b>                         | <b>(25 194 910)</b>                                 |           |
| <b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b> | <b>39 354 948</b>    | <b>(10 343 117)</b> | <b>29 011 831</b>    | <b>3 816 921</b>                         | <b>(25 194 910)</b>                                 |           |
| <b>Reconciliation</b>                                                                                |                      |                     |                      |                                          |                                                     |           |

# Magareng Local Municipality

(Registration number NC093)

Annual Financial Statements for the year ended 30 June 2024

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

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

Figures in Rand

### Statement of Financial Position

#### Assets

##### Current Assets

|                                                      |                    |                    |                    |                   |                      |         |
|------------------------------------------------------|--------------------|--------------------|--------------------|-------------------|----------------------|---------|
| Inventories                                          | (136 189)          | (857 415)          | <b>(993 604)</b>   | 120 974           | <b>1 114 578</b>     | 61, X31 |
| Statutory receivables from non-exchange transactions | 15 689 684         | 790 067            | <b>16 479 751</b>  | 9 266 556         | <b>(7 213 195)</b>   | 61, X32 |
| Statutory receivables from exchange transactions     | 30 911 030         | (5 859 881)        | <b>25 051 149</b>  | 42 384 029        | <b>17 332 880</b>    | 61, X33 |
| Receivables from exchange transactions               | 90 109 906         | (54 498 960)       | <b>35 610 946</b>  | 4 640 982         | <b>(30 969 964)</b>  | 61, X34 |
| Other assets                                         | (1 809 860)        | (3 921)            | <b>(1 813 781)</b> | -                 | <b>1 813 781</b>     | 61, X35 |
| Cash and cash equivalents                            | (138 557 869)      | 247 209 160        | <b>108 651 291</b> | 1 104 154         | <b>(107 547 137)</b> | 61, X36 |
|                                                      | <b>(3 793 298)</b> | <b>186 779 050</b> | <b>182 985 752</b> | <b>57 516 695</b> | <b>(125 469 057)</b> |         |

##### Non-Current Assets

|                               |                    |                    |                    |                    |                     |         |
|-------------------------------|--------------------|--------------------|--------------------|--------------------|---------------------|---------|
| Investment property           | 23 831 200         | -                  | <b>23 831 200</b>  | 24 867 500         | <b>1 036 300</b>    | 61, X37 |
| Property, plant and equipment | 281 929 153        | 97 153 177         | <b>379 082 330</b> | 455 659 724        | <b>76 577 394</b>   | 61, X38 |
| Intangible assets             | 19 790             | (9 896)            | <b>9 894</b>       | 12 779             | <b>2 885</b>        | 61, X39 |
| Heritage assets               | 370 999            | 1                  | <b>371 000</b>     | 370 999            | <b>(1)</b>          |         |
|                               | <b>306 151 142</b> | <b>97 143 282</b>  | <b>403 294 424</b> | <b>480 911 002</b> | <b>77 616 578</b>   |         |
| <b>Total Assets</b>           | <b>302 357 844</b> | <b>283 922 332</b> | <b>586 280 176</b> | <b>538 427 697</b> | <b>(47 852 479)</b> |         |

#### Liabilities

##### Current Liabilities

|                                         |                    |                   |                    |                    |                      |         |
|-----------------------------------------|--------------------|-------------------|--------------------|--------------------|----------------------|---------|
| Finance lease obligation                | 164 730            | (164 729)         | <b>1</b>           | 140 157            | <b>140 156</b>       | 61, X40 |
| Payables from exchange transactions     | 320 025 749        | 95 750 580        | <b>415 776 329</b> | 307 994 718        | <b>(107 781 611)</b> | 61, X41 |
| Consumer deposits                       | 610 644            | 698 056           | <b>1 308 700</b>   | 1 063 096          | <b>(245 604)</b>     | 61, X42 |
| Employee benefit obligation             | 11 275 299         | (3 871 311)       | <b>7 403 988</b>   | 7 391 945          | <b>(12 043)</b>      | 61, X43 |
| Unspent conditional grants and receipts | -                  | -                 | <b>-</b>           | 805 453            | <b>805 453</b>       | 61, X44 |
|                                         | <b>332 076 422</b> | <b>92 412 596</b> | <b>424 489 018</b> | <b>317 395 369</b> | <b>(107 093 649)</b> |         |

##### Non-Current Liabilities

|                             |                    |                    |                    |                    |                      |         |
|-----------------------------|--------------------|--------------------|--------------------|--------------------|----------------------|---------|
| Finance lease obligation    | -                  | -                  | <b>-</b>           | 268 755            | <b>268 755</b>       | 61, X45 |
| Employee benefit obligation | -                  | 794 000            | <b>794 000</b>     | 4 390 000          | <b>3 596 000</b>     | 61, X46 |
| Provisions                  | 11 910 990         | (4 626 258)        | <b>7 284 732</b>   | 4 819 576          | <b>(2 465 156)</b>   | 61, X47 |
|                             | <b>11 910 990</b>  | <b>(3 832 258)</b> | <b>8 078 732</b>   | <b>9 478 331</b>   | <b>1 399 599</b>     |         |
| <b>Total Liabilities</b>    | <b>343 987 412</b> | <b>88 580 338</b>  | <b>432 567 750</b> | <b>326 873 700</b> | <b>(105 694 050)</b> |         |

#### Net Assets

|  |                     |                    |                    |                    |                   |  |
|--|---------------------|--------------------|--------------------|--------------------|-------------------|--|
|  | <b>(41 629 568)</b> | <b>195 341 994</b> | <b>153 712 426</b> | <b>211 553 997</b> | <b>57 841 571</b> |  |
|--|---------------------|--------------------|--------------------|--------------------|-------------------|--|

#### Net Assets

#### Net Assets Attributable to Owners of Controlling Entity

##### Reserves

|                     |              |             |                    |             |                   |  |
|---------------------|--------------|-------------|--------------------|-------------|-------------------|--|
| Accumulated surplus | (41 629 568) | 195 341 994 | <b>153 712 426</b> | 211 553 999 | <b>57 841 573</b> |  |
|---------------------|--------------|-------------|--------------------|-------------|-------------------|--|

# Magareng Local Municipality

(Registration number NC093)

Annual Financial Statements for the year ended 30 June 2024

## Appropriation Statement

Figures in Rand

|                                                                      | Original budget      | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget         | Actual outcome      | Unauthorised expenditure | Variance           | Actual outcome as % of final budget | Actual outcome as % of original budget |
|----------------------------------------------------------------------|----------------------|-----------------------------------------------------|--------------------------|--------------------------------------------|-------------------------------------------|----------------------|---------------------|--------------------------|--------------------|-------------------------------------|----------------------------------------|
| <b>2024</b>                                                          |                      |                                                     |                          |                                            |                                           |                      |                     |                          |                    |                                     |                                        |
| <b>Financial Performance</b>                                         |                      |                                                     |                          |                                            |                                           |                      |                     |                          |                    |                                     |                                        |
| Property rates                                                       | 13 925 520           | (1)                                                 | 13 925 519               | -                                          |                                           | 13 925 519           | 12 915 506          |                          | (1 010 013)        | 93 %                                | 93 %                                   |
| Service charges                                                      | 60 384 167           | (23 151 584)                                        | 37 232 583               | -                                          |                                           | 37 232 583           | 32 105 066          |                          | (5 127 517)        | 86 %                                | 53 %                                   |
| Investment revenue                                                   | 4 797 504            | 3 051 871                                           | 7 849 375                | -                                          |                                           | 7 849 375            | 357 474             |                          | (7 491 901)        | 5 %                                 | 7 %                                    |
| Transfers recognised - operational                                   | 68 488 000           | 1 255 000                                           | 69 743 000               | -                                          |                                           | 69 743 000           | 76 198 433          |                          | 6 455 433          | 109 %                               | 111 %                                  |
| Other own revenue                                                    | 14 466 476           | 9 795 000                                           | 24 261 476               | -                                          |                                           | 24 261 476           | 34 891 510          |                          | 10 630 034         | 144 %                               | 241 %                                  |
| <b>Total revenue (excluding capital transfers and contributions)</b> | <b>162 061 667</b>   | <b>(9 049 714)</b>                                  | <b>153 011 953</b>       | <b>-</b>                                   |                                           | <b>153 011 953</b>   | <b>156 467 989</b>  |                          | <b>3 456 036</b>   | <b>102 %</b>                        | <b>97 %</b>                            |
| Employee costs                                                       | (53 708 754)         | -                                                   | (53 708 754)             | -                                          | -                                         | (53 708 754)         | (51 783 046)        | -                        | 1 925 708          | 96 %                                | 96 %                                   |
| Remuneration of councillors                                          | (4 807 054)          | (805 284)                                           | (5 612 338)              | -                                          | -                                         | (5 612 338)          | (4 457 738)         | -                        | 1 154 600          | 79 %                                | 93 %                                   |
| Depreciation and asset impairment                                    | (25 953 554)         | 1 000                                               | (25 952 554)             |                                            |                                           | (25 952 554)         | 45 306 760          | -                        | 71 259 314         | (175)%                              | (175)%                                 |
| Finance charges                                                      | -                    | -                                                   | -                        | -                                          | -                                         | -                    | (1 957 502)         | -                        | (1 957 502)        | DIV/0 %                             | DIV/0 %                                |
| Inventory consumed and bulk purchases                                | (37 920 000)         | 1 250 000                                           | (36 670 000)             | -                                          | -                                         | (36 670 000)         | (30 079 024)        | -                        | 6 590 976          | 82 %                                | 79 %                                   |
| Other expenditure                                                    | (55 284 357)         | (13 796 823)                                        | (69 081 180)             | -                                          | -                                         | (69 081 180)         | (37 256 826)        | -                        | 31 824 354         | 54 %                                | 67 %                                   |
| <b>Total expenditure</b>                                             | <b>(177 673 719)</b> | <b>(13 351 107)</b>                                 | <b>(191 024 826)</b>     | <b>-</b>                                   | <b>-</b>                                  | <b>(191 024 826)</b> | <b>(80 227 376)</b> | <b>-</b>                 | <b>110 797 450</b> | <b>42 %</b>                         | <b>45 %</b>                            |
| <b>Surplus/(Deficit)</b>                                             | <b>(15 612 052)</b>  | <b>(22 400 821)</b>                                 | <b>(38 012 873)</b>      | <b>-</b>                                   |                                           | <b>(38 012 873)</b>  | <b>76 240 613</b>   |                          | <b>114 253 486</b> | <b>(201)%</b>                       | <b>(488)%</b>                          |

# Magareng Local Municipality

(Registration number NC093)

Annual Financial Statements for the year ended 30 June 2024

## Appropriation Statement

Figures in Rand

|                                                                            | Original<br>budget | Budget<br>adjustments<br>(i.t.o. s28 and<br>s31 of the<br>MFMA) | Final<br>adjustments<br>budget | Shifting of<br>funds (i.t.o.<br>s31 of the<br>MFMA) | Virement<br>(i.t.o. council<br>approved<br>policy) | Final budget      | Actual<br>outcome  | Unauthorised<br>expenditure | Variance           | Actual<br>outcome<br>as % of<br>final<br>budget | Actual<br>outcome<br>as % of<br>original<br>budget |
|----------------------------------------------------------------------------|--------------------|-----------------------------------------------------------------|--------------------------------|-----------------------------------------------------|----------------------------------------------------|-------------------|--------------------|-----------------------------|--------------------|-------------------------------------------------|----------------------------------------------------|
| Transfers and subsidies -<br>capital (monetary<br>allocations)             | 51 967 000         | 10 312 000                                                      | 62 279 000                     | -                                                   |                                                    | 62 279 000        | 55 035 046         |                             | (7 243 954)        | 88 %                                            | 106 %                                              |
| Transfers and subsidies -<br>capital (in-kind - all)                       | 3 000 000          | 1 745 999                                                       | 4 745 999                      | -                                                   |                                                    | 4 745 999         | -                  |                             | (4 745 999)        | - %                                             | - %                                                |
| <b>Surplus (Deficit) after<br/>capital transfers and<br/>contributions</b> | <b>39 354 948</b>  | <b>(10 342 822)</b>                                             | <b>29 012 126</b>              | <b>-</b>                                            |                                                    | <b>29 012 126</b> | <b>131 275 659</b> |                             | <b>102 263 533</b> | <b>452 %</b>                                    | <b>334 %</b>                                       |
| <b>Surplus/(Deficit) for the<br/>year</b>                                  | <b>39 354 948</b>  | <b>(10 342 822)</b>                                             | <b>29 012 126</b>              | <b>-</b>                                            |                                                    | <b>29 012 126</b> | <b>131 275 659</b> |                             | <b>102 263 533</b> | <b>452 %</b>                                    | <b>334 %</b>                                       |

# Magareng Local Municipality

(Registration number NC093)

Annual Financial Statements for the year ended 30 June 2024

## Significant Accounting Policies

| Figures in Rand | Note(s) | 2024 | 2023 |
|-----------------|---------|------|------|
|-----------------|---------|------|------|

### 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. All figures have been rounded to the nearest Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

The significant accounting policies applied in the preparation of these annual financial statements are set out 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. Management considers key financial metrics and approved medium-term budgets to conclude that the going concern assumption used in the compiling of the Annual Financial Statements is appropriate.

#### 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:

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

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

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

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

# Magareng Local Municipality

(Registration number NC093)

Annual Financial Statements for the year ended 30 June 2024

## Significant Accounting Policies

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

#### 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.

#### 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 production estimates, supply demand, together with 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.

#### 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 17.

#### 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.

# Magareng Local Municipality

(Registration number NC093)

Annual Financial Statements for the year ended 30 June 2024

## Significant 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.

# Magareng Local Municipality

(Registration number NC093)

Annual Financial Statements for the year ended 30 June 2024

## Significant Accounting Policies

---

### 1.4 Investment property (continued)

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

- Are the properties owner-occupied or occupied by external parties?
- Have the properties been strategically allocated for a specific purpose?
- Has the municipality commenced with a process to sell the properties?

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 9). Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the item of property, plant and equipment.

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note 9).

#### 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.

# Magareng Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Significant Accounting Policies

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### 1.5 Property, plant and equipment (continued)

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.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property plant and equipment are accounted for as property plant and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Subsequent measurement

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

Depreciation and impairment

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

Land, except for landfill and quarry sites, is not depreciated as it has an indefinite useful life.

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

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 shall be depreciated separately. Components of asset that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

Subsequent to initial recognition, property plant and equipment on the cost model, is carried at cost less accumulated depreciation and any accumulated impairment losses. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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

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| Item             | Depreciation method | Average useful life |
|------------------|---------------------|---------------------|
| Land             | Straight-line       | Indefinite          |
| Buildings        | Straight-line       | 10 - 30 years       |
| Infrastructure   | Straight-line       | 5 - 90 years        |
| Community assets | Straight-line       | 7 - 30 years        |
| Landfill sites   | Straight-line       | 10 - 15 years       |
| Heritage assets  | Straight-line       | N/A                 |
| Other assets     | Straight-line       | 4 -15 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.

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### 1.5 Property, plant and equipment (continued)

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

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

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

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

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 10).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 10).

Commitments:

Where the municipality has a contractual commitment in respect of the acquisition of property, plant and equipment, these are disclosed in note 42. The commitments as disclosed are the contractual amount less any payment made in respect of the contract.

### 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.

### 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.

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### 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.

Intangible assets are initially recognised at cost.

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.

Subsequent measurement

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.

Amortisation begins when intangible assets are in the location and condition necessary for it to be capable of operating in the manner intended by management and ceases at the date that the asset is derecognised.

Internally generated goodwill is not recognised as an intangible asset.

The depreciable amount of an intangible asset with a finite useful life is allocated on a systematic basis over its useful life. The amortisation method used shall reflect the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method shall be used. The amortisation charge for each period shall be recognised in surplus or deficit unless this or another Standard permits or requires it to be included in the carrying amount of another asset.

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

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| Item              | Depreciation method | Average useful life |
|-------------------|---------------------|---------------------|
| Computer software | Straight-line       | 3 -10 years         |

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Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

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

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### 1.8 Heritage assets

#### Initial measurement

A heritage asset that qualifies for recognition as an asset is measured at cost.

A heritage asset shall be recognised as an asset if, and only if:

- (a) it is probably that future economic benefits or service potential associated with the asset will flow to the municipality; and
- (b) the cost or fair value of the asset can be measured reliably.

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

If a heritage asset is not recognised, any initial costs to assess the state of the heritage asset and any costs incurred subsequently is recognised in surplus or deficit as incurred.

The entity does not recognise in the carrying amount of a heritage asset the day-to-day operating costs of the heritage asset, or the costs to maintain or to hold the heritage asset. These costs are recognised in surplus or deficit as incurred.

#### Subsequent measurement

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

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

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

#### Impairment

The heritage assets of the municipality shall not be depreciated but, the municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

#### Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

For a transfer from investment property carried at fair value, to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount shall be recognised in surplus or deficit.

#### Derecognition

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

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

Application of deemed cost - Directive 7

The Municipality opted to take advantage of the transitional provision as contained in the Directive 7 of the Accounting Standards Board, issued in December 2009. The municipality applied deemed cost where the acquisition cost of an asset could not be determined. The fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2010.

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### 1.9 Financial instruments

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

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

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

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

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

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

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 and cash equivalents;
- 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.

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### 1.9 Financial instruments (continued)

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

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

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

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

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

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

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

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

- equity instruments or similar forms of 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.

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### 1.9 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                                   |
|---------------------------------------------------------|--------------------------------------------|
| Cash and cash equivalents                               | Financial asset measured at amortised cost |
| Receivables from exchange and non-exchange transactions | Financial asset measured at amortised cost |
| Other receivables from exchange transactions            | Financial asset measured at amortised cost |

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                                       |
|-----------------------------------------|------------------------------------------------|
| Consumer deposits                       | Financial liability measured at amortised cost |
| Payables from exchange transactions     | Financial liability measured at amortised cost |
| Unspent conditional grants and receipts | Financial liability measured at amortised cost |

#### Initial recognition

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

The municipality recognises financial assets using trade date accounting.

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

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, unless the financial asset or liability is subsequently measured at fair value, in which case the municipality initially measures the financial asset or liability at its fair value.

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately.

The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange transactions (Taxes and Transfers), where it is the recipient of the loan.

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

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

- Financial instruments at amortised cost.
- Financial instruments at cost.

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

#### Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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### 1.9 Financial instruments (continued)

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

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

Financial assets measured at cost:

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

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset 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 asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

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### 1.9 Financial instruments (continued)

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

#### Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

#### Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

#### Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

These are initially and subsequently recorded at amortised cost. Fair value approximates the carrying amount. However, where the asset is not readily convertible into cash amounts for a period exceeding three months these are treated as investments.

### 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.

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### 1.10 Leases (continued)

#### 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.

Inventories shall be recognised as an asset if, and only if:

- (a) It is probable that future economic benefits or service potential associated with the asset will flow to the entity; and
- (b) the cost of the inventories can be measured reliably.

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

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

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

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

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

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

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

The cost of inventories is assigned using the weighted average cost 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.

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### 1.12 Impairment of cash-generating assets (continued)

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.

#### 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.

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

(a) External sources of information:

(i) During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;

(ii) Significant changes with an adverse effect on the Municipality have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the Municipality operates or in the market to which an asset is dedicated;

(iii) Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

(b) Internal sources of information:

(i) Evidence is available of obsolescence or physical damage of an asset;

(ii) Significant changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite;

(iii) A decision to halt the construction of the asset before it is complete or in a usable condition

(iv) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

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

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.

#### Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

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## Significant Accounting Policies

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### 1.12 Impairment of cash-generating assets (continued)

#### 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.

#### 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.

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### 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.

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## Significant Accounting Policies

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

#### 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.

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

(a) External sources of information:

(i) Cessation, or near cessation, of the demand or need for services provided by the asset;

(ii) Significant long-term changes with an adverse effect on the Municipality have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the Municipality operates.

(b) Internal sources of information:

(i) Evidence is available of physical damage of an asset;

(ii) Significant long-term changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date;

(iii) A decision to halt the construction of the asset before it is complete or in a usable condition;

(iv) Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.

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.

#### 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.

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

#### 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.

#### 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.

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## Significant Accounting Policies

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### 1.14 Employee benefits (continued)

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.

#### 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.

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## Significant Accounting Policies

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### 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.

#### 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.

# Magareng Local Municipality

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### 1.14 Employee benefits (continued)

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.

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).

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## Significant Accounting Policies

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### 1.14 Employee benefits (continued)

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 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.

#### 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.

# Magareng Local Municipality

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## Significant Accounting Policies

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### 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 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.

### 1.16 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.

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### 1.16 Provisions and contingencies (continued)

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

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

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

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

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

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

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

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

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

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 47.

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.

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### 1.16 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, an municipality recognises the obligation at the higher of:

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

### 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.

#### Sale of goods

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

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

#### Rendering of services

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

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### 1.17 Revenue from exchange transactions (continued)

#### 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.

#### 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.

### 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.

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.

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

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

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

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

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

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

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

#### Recognition

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

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

#### Measurement

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

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.

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

#### Taxes

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

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

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

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

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

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

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

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

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

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

#### Transfers

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

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

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

#### Fines

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

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

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.

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

#### 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.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 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.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.24 Irregular expenditure

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

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### 1.24 Irregular expenditure (continued)

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.25 Changes in accounting policies, estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to notes for details of changes in accounting policies. Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to the notes to the Annual Financial Statements for details of corrections of errors recorded during the period under review.

### 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 Materiality

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

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

The entity does not retrospectively adjust the accounting of past items (or group of items) that were previously assessed as immaterial, unless an error occurred.

### 1.28 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 accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2023/07/01 to 2024/06/30.

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.

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### 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 to the South African Revenue Services for VAT on the Cash basis at the standard rate, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12, or are out of scope for VAT.

VAT is recognised in the municipality's accounting records on the accrual basis of accounting, in accordance with GRAP 1, paragraph 31. Under the accrual basis of accounting, VAT is recognised when the related expenditure or revenue transaction qualifies for recognition in the accounting records, and not when the related cash flow occurs.

### 1.31 Accumulated surplus

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.

### 1.32 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.

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## Significant Accounting Policies

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### 1.32 Statutory receivables (continued)

#### Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

#### Subsequent measurement

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

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

#### Accrued interest

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

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

#### Other charges

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

#### Impairment losses

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

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

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

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.

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### 1.32 Statutory receivables (continued)

#### Derecognition

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

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

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

### 1.33 Accounting by principals and agents

#### Identification

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

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

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

#### Identifying whether an entity is a principal or an agent

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

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

#### Binding arrangement

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

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

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### 1.33 Accounting by principals and agents (continued)

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

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

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

- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that it is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

#### Recognition

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

### 1.34 Segment information

A segment is an activity of an entity:

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

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

#### Measurement

The amount of each segment item reported is the measure reported to management for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing the entity's financial statements and allocations of revenues and expenses are included in determining reported segment surplus or deficit only if they are included in the measure of the segment's surplus or deficit that is used by management. Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by management are reported for that segment. If amounts are allocated to reported segment surplus or deficit, assets or liabilities, those amounts are allocated on a reasonable basis.

If management uses only one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities in assessing segment performance and deciding how to allocate resources, segment surplus or deficit, assets and liabilities are reported in terms of that measure. If management uses more than one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities, the reported measures are those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the entity's financial statements.

# Magareng Local Municipality

(Registration number NC093)

Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations

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

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

##### **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").

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. 01 April 2023.

The municipality has adopted the interpretation for the first time in the 2023/2024 01 April 2023.

The impact of the interpretation is set out in note Changes in Accounting Policy.

##### **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).

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

#### 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. 01 April 2023.

The municipality has adopted the revisions for the first time in the 2023/2024 annual financial statements.

The impact of the revisions is set out in note Changes in Accounting Policy.

#### 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.

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. 01 April 2023.

The municipality has adopted the revisions for the first time in the 2023/2024 01 April 2023.

The impact of the revisions is set out in note Changes in Accounting Policy.

#### 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,

# Magareng Local Municipality

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## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

#### 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

#### 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

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

#### 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 01 April 2023.

The municipality has adopted the improvements for the first time in the 2023/2024 annual financial statements.

The impact of the improvements is set out in note Changes in Accounting Policy.

#### 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 01 April 2023.

The municipality has adopted the guideline for the first time in the 2023/2024 annual financial statements.

The impact of the standard is set out in note Changes in Accounting Policy.

#### GRAP 1 (amended): Presentation of Financial Statements (Materiality)

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

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

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

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 01 April 2025.

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

The impact of the amendment is set out in note Changes in Accounting Policy.

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

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2024 or later periods:

#### GRAP 2023 Improvements to the Standards of GRAP 2023

The Board undertakes periodic revisions of the Standards of GRAP in line with best practice internationally among standard setters. The Improvements to the Standards of GRAP include changes resulting from amendments to the International Public Sector Accounting Standards and the International Financial Reporting Standards, as well as general improvements identified through consultation with stakeholders. The Improvements to the Standards of GRAP (2023) was approved by the Board and issued in November 2023.

#### GRAP1 - Presentation of Financial Statements

##### Narrow scope amendments to the IAS Standard on Presentation of Financial Statements (IAS 1) Feb 2021

Disclosure of Accounting Policies: Changes from "significant accounting policies" to "material accounting policies" because the Standards of GRAP do not define the term "significant".

##### General Improvements

- Provide clarity to the terms "publicly available" and "publicly accountable".
- Remove encouraged disclosures with limited information value.

#### GRAP2 - Cash Flow Statements

##### General Improvements

Amend disclosures to read as "useful additional information that may be disclosed" as opposed to "encouraged disclosures".

#### GRAP3 - Accounting Policies, Changes in Accounting Estimates and Errors

##### Narrow scope amendments to IAS 8 Feb 2021

Change in the definition of an accounting estimate because the previous definition was not sufficiently clear.

# Magareng Local Municipality

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## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

#### General Improvements

Clarify that the requirements only apply to Standards of GRAP that are not yet effective for which the Minister of Finance has already determined an effective date.

#### GRAP5 - Borrowing Costs

##### Amendments to the IPSAS on Borrowing Costs (IPSAS 5) – Non-authoritative Guidance 2021

Add the Illustrative Examples in IPSAS 5 to GRAP 5.

#### GRAP13 - Leases

##### General Improvements

Remove encouraged disclosures with limited information value.

#### GRAP17 - Property, Plant and Equipment

##### Improvements to IPSAS 2021

Amendments are made to prohibit proceeds from selling items produced before that asset is available, to be deducted from the cost of property, plant and equipment.

#### GRAP19 - Provisions, Contingent Liabilities and Contingent Assets

##### General Improvements

Remove encouraged disclosures with limited information value.

#### GRAP20 - Related Party Disclosures

##### General Improvements

Update the definition of “significant influence” to align with the Standard of GRAP on Investments in Associates and Joint Ventures (GRAP 36).

#### GRAP23 - Revenue from Non-exchange Transactions (Taxes and Transfers)

##### General Improvements

Remove encouraged disclosures with limited information value.

#### GRAP24 - Presentation of Budget Information in Financial Statements

##### Narrow scope amendments to the IAS Standard on Presentation of Financial Statements (IAS 1) Feb 2021

Disclosure of Accounting Policies: Changes from “significant accounting policies” to “material accounting policies” because the Standards of GRAP do not define the term “significant”.

##### General Improvements

- Provide clarity to the terms “publicly available” and “publicly accountable”.
- Simplify the disclosures on the presentation of a reconciliation to improve the quality of reporting, by not prescribing the line items to reconcile to.
- Re-instate the Illustrative Examples that were deleted when GRAP 24 became effective.

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

#### GRAP27 - Agriculture

##### General Improvements

Remove encouraged disclosures and repackage it as "useful information" in another section of the Standard.

#### GRAP31 - Intangible Assets

##### General Improvements

- Clarify when the Standard of GRAP on Service Concession Arrangements: Grantor (GRAP 32) is applicable.
- Remove reference to fully depreciated assets.
- Remove encouraged disclosures with limited information value.

#### GRAP104 - Financial Instruments

##### Improvements to IPSAS 2021

- Interest Rate Benchmark Reform - Amendments to provide a practical expedient not to treat changes in contractual cash flows as a modification.
- Amendments to clarify the fees that an entity includes when it applies the "10 percent" test to derecognise a financial liability.

#### Narrow scope amendments to the IAS Standard on Presentation of Financial Statements (IAS 1) Feb 2021

Disclosure of Accounting Policies: Changes from "significant accounting policies" to "material accounting policies" because the Standards of GRAP do not define the term "significant".

##### General Improvements

Remove encouraged disclosures with limited information value.

#### iGRAP20 - Accounting for Adjustments to Revenue

##### Narrow scope amendments to IAS 8 Feb 2021

Change in the definition of an accounting estimate because the previous definition was not sufficiently clear.

#### Directive 12 - The Selection of an Appropriate Reporting Framework by Public Entities

##### Narrow scope amendments to the IAS Standard on Presentation of Financial Statements (IAS 1) Feb 2021

Disclosure of Accounting Policies: Changes from "significant accounting policies" to "material accounting policies" because the Standards of GRAP do not define the term "significant".

#### Guideline on The Application of Materiality to Financial Statements

##### Narrow scope amendments to the IAS Standard on Presentation of Financial Statements (IAS 1) Feb 2021

Disclosure of Accounting Policies: Changes from "significant accounting policies" to "material accounting policies" because the Standards of GRAP do not define the term "significant".

##### General Improvements

Amendments resulting from the review of the Standard of GRAP on Cash Flow Statements (GRAP 2) and the Standard of GRAP on Presentation of Budget Information in Financial Statements (GRAP 24).

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

The effective date of these improvements have not yet been set.

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

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

### GRAP 1 (amended): Presentation of Financial Statements (Going Concern)

The Board undertook a project in 2021 to consider the guidance and disclosure requirements on going concern in the relevant Standards of GRAP. As an outcome of this project, the Board agreed to include additional guidance and disclosures on going concern in this Standard. Consequential amendments are also made to the Standard of GRAP on Events After the Reporting Date.

#### Applicability of going concern in the public sector

An entity prepares its financial statements on a going concern basis unless there is an intention to liquidate the entity, to cease operating, or if there is no realistic alternative but to do so. A liquidation or cessation of an entity's operations will result in the termination of all its functions.

In South Africa, specific legislative requirements need to be followed before a decision is taken to liquidate a public sector entity, to cease or scale back its operations, to transfer some or all of its functions to another entity, or to merge one or more entities. The "intention" to liquidate an entity, to cease or scale back its operations, to transfer some or all of its functions to another entity, or to merge one or more entities needs to be established. This intention can be reflected in a number of ways and may encompass legislation passed in Parliament or a provincial legislature, cabinet decision, ministerial order, a decision made by a municipal council, board, council or equivalent, a regulation or a notice, or other official means.

The liquidation or cessation of a public sector entity's operations is rare, and only in the case of dissolution without any continuation of the entity's operations will the going concern basis cease to apply. When all, or some of the functions of an entity are transferred to another entity, or when a decision is taken to merge one or more entities, the application of the going concern basis remains appropriate. This is because the entity's functions will continue to be provided in a modified form, even though they are executed by another entity.

The Board agreed to include explanatory guidance in this Standard on the application of the going concern assumption by public sector entities.

Where some of an entity's functions are transferred in a transfer of functions, and the remaining functions are discontinued, there are two separate transactions. The Board concluded that management should assess these transactions separately based on the functions transferred, those to be discontinued (if any), and those that may be retained and continued (if any), to determine if preparing the entity's financial statements on a going concern basis remains appropriate.

#### Disclosure on going concern

The Board's project highlighted a need for specific disclosures on going concern, material uncertainties relating to going concern, and actions taken by management to mitigate these uncertainties. Consideration was also given to the practices, guidance and requirements in other countries and/or from other standard-setting bodies on these matters.

To address the diversity in the information disclosed on going concern, the Board agreed to expand the disclosure requirements in this Standard to ensure that consistent disclosures are provided.

The effective date of these revisions have not yet been set.

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

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

### GRAP 103 (as revised): Heritage Assets

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## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

#### Background

The Accounting Standards Board (the Board) completed its post-implementation review of the Standard of GRAP on Heritage Assets (GRAP 103) (hereafter referred to as “the review”) in 2020. Based on the feedback received as part of the review, the Board agreed to reconsider certain principles in GRAP 103.

The objective of the project was to revise and clarify principles in GRAP 103 following feedback received from the review and actions agreed by the Board.

#### Key amendments to GRAP 103

The Board agreed that the definition of a heritage asset in GRAP 103 should be reconsidered to better align it with the legislative explanation of a heritage resource in the National Heritage Resources Act, 1999, and the classification by the South African Heritage Resources Agency.

The proposed definition focuses on assets that have “cultural significance” and defines a heritage asset as “an asset that has cultural significance, and is held indefinitely for the benefit of present and future generations”. “Cultural significance” has also been defined and described in GRAP 103 based on legislation.

The characteristics displayed by heritage assets, and the range of assets that could be heritage assets, have also been aligned with legislation.

The amendments further relate to the Classification of dual purpose heritage assets, Determining a reliable value for a heritage asset, Protective rights imposed on heritage assets, Re-assessing if a reliable value becomes available subsequently, Aggregation of individually insignificant heritage assets, Impairment of heritage assets, Mandatory disclosures of heritage assets borrowed or on loan.

The effective date of these revisions have not yet been set.

The effective date of the standard is for years beginning on or after 01 April 2023.

The municipality has adopted the standard for the first time in the 2023/2024 annual financial statements.

It is unlikely that the standard 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.

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

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.

### 2.3 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 01 July 2024 or later periods but are not relevant to its operations:

#### iGRAP 22 Foreign Currency Transactions and Advance Consideration

##### Background

Paragraph .21 of the Standard of GRAP on The Effects of Changes in Foreign Exchange Rates (GRAP 4) requires an entity to record a foreign currency transaction, on initial recognition in its functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency (the exchange rate) at the date of the transaction. Paragraph .22 of GRAP 4 states that the date of the transaction is the date on which the transaction first qualifies for recognition in accordance with the Standards of GRAP.

When an entity pays or receives consideration in advance in a foreign currency, it generally recognises a non-monetary asset or non-monetary liability before the recognition of the related asset, expense or revenue. The related asset, expense or revenue (or part of it) is the amount recognised applying the relevant Standard of GRAP, which results in the derecognition of the non-monetary asset or non-monetary liability arising from the advance consideration.

A question arose asking how to determine "the date of the transaction" applying paragraphs .21 and .22 of GRAP 4 when recognising revenue. The question specifically addressed circumstances in which an entity recognises a non-monetary liability arising from the receipt of advance consideration before it recognises the related revenue. It was further noted that the receipt or payment of advance consideration in a foreign currency is not restricted to revenue transactions. Accordingly, it was decided to clarify the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or revenue when an entity has received or paid advance consideration in a foreign currency.

##### Issue

This Interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or revenue (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.

##### Consensus

Applying paragraphs .21 and .22 of GRAP 4, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or revenue (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.

The effective date of this interpretation is for years beginning on or after 01 April 2025.

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.

# Magareng Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
|-----------------|------|------|
|-----------------|------|------|

### 3. Inventories

|                                   |                |                |
|-----------------------------------|----------------|----------------|
| Water for distribution            | 5 238          | -              |
| Unsold Properties Held for Resale | 115 736        | 115 736        |
|                                   | <b>120 974</b> | <b>115 736</b> |

### 4. Statutory receivables from non-exchange transactions

|                                 |                  |                   |
|---------------------------------|------------------|-------------------|
| Fines                           | 31 999 355       | 31 803 073        |
| Government grants and subsidies | -                | 732 343           |
| Other receivables               | 687 579          | 599 159           |
| Property rates                  | 90 690 213       | 81 044 276        |
| Less: Impairment                | (114 110 591)    | (103 759 280)     |
|                                 | <b>9 266 556</b> | <b>10 419 571</b> |

#### Statutory receivables from non-exchange transactions pledged as security

None of the statutory receivables from non-exchange transactions were pledged as security for any financial liability at yearend.

#### Traffic fines: Ageing

|                       |               |                |
|-----------------------|---------------|----------------|
| 91 days +             | 31 999 355    | 31 803 073     |
| Subtotal              | 31 999 355    | 31 803 073     |
| Less: debt impairment | (31 974 171)  | (31 667 044)   |
|                       | <b>25 184</b> | <b>136 029</b> |

#### Property rates: Ageing

|                       |                  |                  |
|-----------------------|------------------|------------------|
| Current (0-30 days)   | 2 958 309        | 1 243 406        |
| 31 - 60 days          | 1 309 475        | 1 189 749        |
| 61 - 90 days          | 1 383 542        | 1 117 758        |
| 91 days +             | 85 038 888       | 77 493 363       |
| Subtotal              | 90 690 214       | 81 044 276       |
| Less: debt impairment | (82 136 420)     | (72 092 236)     |
|                       | <b>8 553 794</b> | <b>8 952 040</b> |

#### Credit quality of statutory receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

#### Statutory receivables from non-exchange transactions past due but not impaired

All receivables from non-exchange transactions, excluding government and municipal debtors and debtors who paid more than their charges for the last three months of the financial year, are provided to be impaired in full.

The ageing of amounts for property rates due but not impaired is as follows:

|                   |           |        |
|-------------------|-----------|--------|
| 1 month past due  | 741 926   | 98 506 |
| 2 months past due | 221 096   | 58 358 |
| 3 months past due | 7 590 772 | -      |

# Magareng Local Municipality

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## Notes to the Annual Financial Statements

| Figures in Rand                                                                                                                               | 2024                 | 2023                 |
|-----------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| <b>4. Statutory receivables from non-exchange transactions (continued)</b>                                                                    |                      |                      |
| <b>Statutory receivables from non-exchange transactions impaired</b>                                                                          |                      |                      |
| As of 30 June 2024, statutory receivables from non-exchange transaction of R 82 136 420 (2023: R 103 759 280) were impaired and provided for. |                      |                      |
| The ageing of the amounts relating to property rates are as follows:                                                                          |                      |                      |
| 0 to 3 months                                                                                                                                 | 2 216 383            | 3 375 803            |
| 3 to 6 months                                                                                                                                 | 1 088 380            | 3 980 755            |
| Over 6 months                                                                                                                                 | 78 831 658           | 73 687 718           |
| <b>Reconciliation of provision for impairment of statutory receivables from non-exchange transactions</b>                                     |                      |                      |
| Balance at the beginning of the year                                                                                                          | (103 759 280)        | (95 380 569)         |
| Contribution (to) / from allowance property rates                                                                                             | (11 922 557)         | (8 378 711)          |
| Bad debt written off                                                                                                                          | 1 878 373            | -                    |
| Provision for impairment - traffic fines                                                                                                      | (307 127)            | -                    |
|                                                                                                                                               | <b>(114 110 591)</b> | <b>(103 759 280)</b> |
| <b>5. Statutory receivables from exchange transactions</b>                                                                                    |                      |                      |
| VAT                                                                                                                                           | 42 384 029           | 35 226 185           |
| <b>6. Receivables from exchange transactions</b>                                                                                              |                      |                      |
| <b>Gross balances</b>                                                                                                                         |                      |                      |
| Electricity                                                                                                                                   | 43 794 768           | 45 329 092           |
| Water                                                                                                                                         | 110 365 297          | 101 097 347          |
| Sewerage                                                                                                                                      | 100 924 820          | 85 904 567           |
| Refuse                                                                                                                                        | 75 210 994           | 65 052 161           |
| Sundry                                                                                                                                        | 2 104 040            | 2 378 798            |
|                                                                                                                                               | <b>332 399 919</b>   | <b>299 761 965</b>   |
| <b>Less: Allowance for impairment</b>                                                                                                         |                      |                      |
| Electricity                                                                                                                                   | (41 490 193)         | (26 943 026)         |
| Water                                                                                                                                         | (109 264 453)        | (97 640 869)         |
| Sewerage                                                                                                                                      | (100 291 159)        | (85 255 867)         |
| Refuse                                                                                                                                        | (74 682 422)         | (64 063 600)         |
| Sundry                                                                                                                                        | (2 030 710)          | (2 004 253)          |
|                                                                                                                                               | <b>(327 758 937)</b> | <b>(275 907 615)</b> |
| <b>Net balance</b>                                                                                                                            |                      |                      |
| Electricity                                                                                                                                   | 2 304 575            | 18 386 066           |
| Water                                                                                                                                         | 1 100 844            | 3 456 478            |
| Sewerage                                                                                                                                      | 633 661              | 648 700              |
| Refuse                                                                                                                                        | 528 572              | 988 561              |
| Sundry                                                                                                                                        | 73 330               | 374 545              |
|                                                                                                                                               | <b>4 640 982</b>     | <b>23 854 350</b>    |

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## Notes to the Annual Financial Statements

| Figures in Rand                                              | 2024                 | 2023                 |
|--------------------------------------------------------------|----------------------|----------------------|
| <b>6. Receivables from exchange transactions (continued)</b> |                      |                      |
| <b>Electricity</b>                                           |                      |                      |
| Current (0 -30 days)                                         | 1 713 454            | 1 767 607            |
| 31 - 60 days                                                 | 326 364              | 879 533              |
| 61 - 90 days                                                 | 295 538              | 685 680              |
| 91+ days                                                     | 41 459 411           | 41 996 271           |
| Less: impairment                                             | (41 490 192)         | (26 943 025)         |
|                                                              | <b>2 304 575</b>     | <b>18 386 066</b>    |
| <b>Water</b>                                                 |                      |                      |
| Current (0 -30 days)                                         | 1 929 445            | 1 032 374            |
| 31 - 60 days                                                 | 960 144              | 1 785 202            |
| 61 - 90 days                                                 | 870 892              | 103 558              |
| 91 days +                                                    | 106 604 816          | 98 176 212           |
| Less: impairment                                             | (109 264 453)        | (97 640 868)         |
|                                                              | <b>1 100 844</b>     | <b>3 456 478</b>     |
| <b>Sewerage</b>                                              |                      |                      |
| Current (0 -30 days)                                         | 2 607 691            | 1 001 255            |
| 31 - 60 days                                                 | 1 283 067            | 985 539              |
| 61 - 90 days                                                 | 1 288 128            | 1 055 987            |
| 91 days +                                                    | 95 745 934           | 82 861 786           |
| Less: impairment                                             | (100 291 159)        | (85 255 867)         |
|                                                              | <b>633 661</b>       | <b>648 700</b>       |
| <b>Refuse</b>                                                |                      |                      |
| Current (0 -30 days)                                         | 1 859 536            | 785 532              |
| 31 - 60 days                                                 | 902 043              | 856 901              |
| 61 - 90 days                                                 | 904 746              | 958 421              |
| 91 days +                                                    | 71 544 670           | 62 451 307           |
| Less: impairment                                             | (74 682 423)         | (64 063 600)         |
|                                                              | <b>528 572</b>       | <b>988 561</b>       |
| <b>Sundry</b>                                                |                      |                      |
| Current (0 -30 days)                                         | 32 180               | 39 562               |
| 31 - 60 days                                                 | 12 886               | 71 502               |
| 61 - 90 days                                                 | 9 245                | 47 255               |
| 91 days +                                                    | 2 049 730            | 2 220 480            |
| Less: impairment                                             | (2 030 711)          | (2 004 254)          |
|                                                              | <b>73 330</b>        | <b>374 545</b>       |
| <b>Reconciliation of allowance for impairment</b>            |                      |                      |
| Balance at beginning of the year                             | (275 907 615)        | (263 742 392)        |
| Contributions to allowance                                   | (55 144 714)         | (12 165 223)         |
| Bad debt written off                                         | 3 293 392            | -                    |
|                                                              | <b>(327 758 937)</b> | <b>(275 907 615)</b> |

### Receivables from exchange transactions pledged as security

No receivables from exchange transactions were pledged as security for any financial liability at year-end.

# Magareng Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
|-----------------|------|------|
|-----------------|------|------|

### 6. Receivables from exchange transactions (continued)

#### Credit quality of receivables from exchange transactions

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

#### Receivables from exchange transactions past due but not impaired

All receivables from exchange transactions, excluding government and municipal debtors and debtors which are less than 3 months past due are not considered to be impaired

Receivables from exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2024, R 4 162 728 (2023: R 6 643 600) were past due but not impaired.

Additional text

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

|                    |           |           |
|--------------------|-----------|-----------|
| 1 month past due   | 1 006 602 | 753 065   |
| 2+ months past due | 3 156 126 | 5 890 535 |

#### Receivables from exchange transactions impaired

As of 30 June 2024, receivables from exchange transactions of R 327 758 938 (2023: R 275 907 615) were impaired and provided for.

The ageing of these loans is as follows:

|               |             |             |
|---------------|-------------|-------------|
| 0 to 3 months | 13 177 283  | 4 138 614   |
| 3 to 6 months | 9 930 421   | 55 181 523  |
| Over 6 months | 304 651 234 | 216 587 478 |

### 7. Cash and cash equivalents

Cash and cash equivalents consist of:

|                     |                  |                |
|---------------------|------------------|----------------|
| Cash on hand        | 18 000           | -              |
| Bank balances       | 891 230          | 495 903        |
| Short-term deposits | 140 485          | 183 241        |
| Cash in transit     | 54 439           | 54 439         |
|                     | <b>1 104 154</b> | <b>733 583</b> |

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## Notes to the Annual Financial Statements

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### 7. Cash and cash equivalents (continued)

The municipality had the following bank accounts

| Account number / description                  | Bank statement balances |                |                | Cash book balances |                |                |
|-----------------------------------------------|-------------------------|----------------|----------------|--------------------|----------------|----------------|
|                                               | 30 June 2024            | 30 June 2023   | 30 June 2022   | 30 June 2024       | 30 June 2023   | 30 June 2022   |
| ABSA Bank - Current Account - 4096525022      | 891 230                 | 495 903        | 69 218         | 891 230            | 495 903        | 69 218         |
| Absa Bank - 7 day notice account - 9351945669 | -                       | 162 891        | 152 956        | -                  | 162 891        | 152 956        |
| Absa Bank - 7 day notice account - 9355869912 | 966                     | 966            | 966            | 966                | 966            | 966            |
| Absa Bank - 7 day notice account - 9355871747 | 20 779                  | 19 384         | 18 375         | 20 779             | 19 384         | 18 375         |
| Absa Bank - 7 day notice account - 9380541602 | 118 740                 | -              | -              | 118 740            | -              | -              |
| Cash in transit                               | 54 439                  | 54 439         | -              | 54 439             | 54 439         | -              |
| Petty cash                                    | 18 000                  | -              | -              | 18 000             | -              | -              |
| <b>Total</b>                                  | <b>1 104 154</b>        | <b>733 583</b> | <b>241 515</b> | <b>1 104 154</b>   | <b>733 583</b> | <b>241 515</b> |

## Magareng Local Municipality

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### Notes to the Annual Financial Statements

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#### 8. Investment property

|                     | 2024                |                                                                 |                | 2023                |                                                                 |                |
|---------------------|---------------------|-----------------------------------------------------------------|----------------|---------------------|-----------------------------------------------------------------|----------------|
|                     | Cost /<br>Valuation | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying value | Cost /<br>Valuation | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying value |
| Investment property | 24 867 500          | -                                                               | 24 867 500     | 24 867 500          | -                                                               | 24 867 500     |

#### Reconciliation of investment property - 2024

|                     | Opening<br>balance | Total      |
|---------------------|--------------------|------------|
| Investment property | 24 867 500         | 24 867 500 |

#### Reconciliation of investment property - 2023

|                     | Opening<br>balance | Total      |
|---------------------|--------------------|------------|
| Investment property | 24 867 500         | 24 867 500 |

#### Pledged as security

There are no investment properties pledged as security.

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

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements as follows.

**Notes to the Annual Financial Statements**

| Figures in Rand | 2024 | 2023 |
|-----------------|------|------|
|-----------------|------|------|

**8. Investment property (continued)**

**Deemed cost**

Deemed cost was determined using fair value.

# Magareng Local Municipality

(Registration number NC093)

Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

Figures in Rand

### 9. Property, plant and equipment

|                  | 2024                |                                                                 |                    | 2023                |                                                                 |                    |
|------------------|---------------------|-----------------------------------------------------------------|--------------------|---------------------|-----------------------------------------------------------------|--------------------|
|                  | Cost /<br>Valuation | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying value     | Cost /<br>Valuation | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying value     |
| Land             | 92 843 802          | -                                                               | 92 843 802         | 92 843 802          | -                                                               | 92 843 802         |
| Buildings        | 65 549 654          | (31 396 667)                                                    | 34 152 987         | 62 470 852          | (34 289 307)                                                    | 28 181 545         |
| Other assets     | 16 433 839          | (10 824 114)                                                    | 5 609 725          | 16 753 317          | (11 433 471)                                                    | 5 319 846          |
| Infrastructure   | 446 980 534         | (294 273 985)                                                   | 152 706 549        | 456 668 424         | (289 694 433)                                                   | 166 973 991        |
| Landfill sites   | 3 319 907           | (946 703)                                                       | 2 373 204          | 3 659 194           | (709 383)                                                       | 2 949 811          |
| Work in progress | 167 973 457         | -                                                               | 167 973 457        | 127 078 391         | -                                                               | 127 078 391        |
| <b>Total</b>     | <b>793 101 193</b>  | <b>(337 441 469)</b>                                            | <b>455 659 724</b> | <b>759 473 980</b>  | <b>(336 126 594)</b>                                            | <b>423 347 386</b> |

## Magareng Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

### Notes to the Annual Financial Statements

Figures in Rand

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

##### Reconciliation of property, plant and equipment - 2024

|                                     | Opening<br>balance | Additions         | Disposals          | Transfers from<br>Work in<br>progress | Other changes,<br>movements | Depreciation        | Impairment<br>loss | Total              |
|-------------------------------------|--------------------|-------------------|--------------------|---------------------------------------|-----------------------------|---------------------|--------------------|--------------------|
| Land                                | 92 843 802         | -                 | -                  | -                                     | -                           | -                   | -                  | 92 843 802         |
| Buildings                           | 28 181 545         | -                 | (1 215)            | 8 883 296                             | -                           | (1 660 242)         | (1 250 397)        | 34 152 987         |
| Other property, plant and equipment | 5 319 846          | 1 749 619         | (3 583)            | -                                     | -                           | (1 440 957)         | (15 200)           | 5 609 725          |
| Infrastructure assets               | 166 973 991        | 869 775           | (3 100 542)        | 1 771 107                             | -                           | (13 653 602)        | (154 180)          | 152 706 549        |
| Landfill sites                      | 2 949 811          | -                 | -                  | -                                     | (339 287)                   | (237 320)           | -                  | 2 373 204          |
| Work in progress                    | 127 078 391        | 51 549 469        | -                  | (10 654 403)                          | -                           | -                   | -                  | 167 973 457        |
|                                     | <b>423 347 386</b> | <b>54 168 863</b> | <b>(3 105 340)</b> | <b>-</b>                              | <b>(339 287)</b>            | <b>(16 992 121)</b> | <b>(1 419 777)</b> | <b>455 659 724</b> |

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## Notes to the Annual Financial Statements

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

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

|                                    | Opening<br>balance | Additions         | Disposals          | Transfers from<br>Work in<br>progress | Other changes,<br>movements | Depreciation        | Impairment<br>loss | Total              |
|------------------------------------|--------------------|-------------------|--------------------|---------------------------------------|-----------------------------|---------------------|--------------------|--------------------|
| Land                               | 97 343 802         | -                 | (4 500 000)        | -                                     | -                           | -                   | -                  | 92 843 802         |
| Buildings                          | 30 213 196         | -                 | -                  | -                                     | -                           | (2 023 921)         | (7 730)            | 28 181 545         |
| Other property plant and equipment | 2 869 634          | 3 342 845         | (3 174)            | -                                     | -                           | (845 798)           | (43 661)           | 5 319 846          |
| Infrastructure assets              | 176 135 957        | 627 197           | -                  | 10 116 966                            | -                           | (19 710 295)        | (195 834)          | 166 973 991        |
| Landfill sites                     | 6 026 347          | -                 | -                  | -                                     | (2 830 719)                 | (245 817)           | -                  | 2 949 811          |
| Work in progress                   | 113 309 890        | 23 885 467        | -                  | (10 116 966)                          | -                           | -                   | -                  | 127 078 391        |
|                                    | <b>425 898 826</b> | <b>27 855 509</b> | <b>(4 503 174)</b> | <b>-</b>                              | <b>(2 830 719)</b>          | <b>(22 825 831)</b> | <b>(247 225)</b>   | <b>423 347 386</b> |

#### 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)

|                                     |         |         |
|-------------------------------------|---------|---------|
| Other property, plant and equipment | 351 049 | 103 586 |
|-------------------------------------|---------|---------|

# Magareng Local Municipality

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## Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
|-----------------|------|------|
|-----------------|------|------|

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

#### Property, plant and equipment in the process of being constructed or developed

##### Cumulative expenditure recognised in the carrying value of property, plant and equipment

|                         |                    |                    |
|-------------------------|--------------------|--------------------|
| Water Infrastructure    | 167 973 574        | 126 715 077        |
| Sewerage Infrastructure | -                  | 990 512            |
|                         | <b>167 973 574</b> | <b>127 705 589</b> |

##### Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected

|                                                                                             |                    |                   |
|---------------------------------------------------------------------------------------------|--------------------|-------------------|
| Upgrading of water treatment works (RBIG) project in Warrenton: BK092                       | 85 024 142         | 75 369 124        |
| Ikutseng Bulk water (MIG) - Phase 2 TECH07/17/18                                            | 20 271 703         | 20 271 703        |
| Refurbishment of Warrenton waste water treatment plant and N12 pump station                 | 273 252            | 273 252           |
| Upgrade and extension of Warrenton WTP (Tech Bid 03/19/20)/(01/19/20)                       | 10 927 414         | -                 |
| New Internal Water Reticulation Network in Ditshotshwaneng, Rabatji & Sonderwater - Phase 1 | -                  | 990 512           |
|                                                                                             | <b>116 496 511</b> | <b>96 904 591</b> |

#### Reconciliation of Work-in-Progress 2024

|                                | Included within Infrastructure | Included Within Buildings | Total              |
|--------------------------------|--------------------------------|---------------------------|--------------------|
| Opening balance                | 127 078 510                    | -                         | 127 078 510        |
| Additions/capital expenditure  | 42 666 172                     | 8 883 296                 | 51 549 468         |
| Transferred to completed Items | (1 771 107)                    | (8 883 296)               | (10 654 403)       |
|                                | <b>167 973 575</b>             | <b>-</b>                  | <b>167 973 575</b> |

#### Reconciliation of Work-in-Progress 2023

|                                | Included within Infrastructure | Total              |
|--------------------------------|--------------------------------|--------------------|
| Opening balance                | 113 310 009                    | 113 310 009        |
| Additions/capital expenditure  | 23 885 466                     | 23 885 466         |
| Transferred to completed items | (10 116 965)                   | (10 116 965)       |
|                                | <b>127 078 510</b>             | <b>127 078 510</b> |

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

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

|                                      |           |           |
|--------------------------------------|-----------|-----------|
| Inventory, spares and parts consumed | 9 290 047 | 6 212 658 |
|--------------------------------------|-----------|-----------|

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.

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## Notes to the Annual Financial Statements

Figures in Rand

### 10. Intangible assets

|                          | 2024                |                                                                 |                | 2023                |                                                                 |                |
|--------------------------|---------------------|-----------------------------------------------------------------|----------------|---------------------|-----------------------------------------------------------------|----------------|
|                          | Cost /<br>Valuation | Accumulated<br>amortisation<br>and<br>accumulated<br>impairment | Carrying value | Cost /<br>Valuation | Accumulated<br>amortisation<br>and<br>accumulated<br>impairment | Carrying value |
| Computer software, other | 898 839             | (886 060)                                                       | 12 779         | 885 244             | (875 349)                                                       | 9 895          |

#### Reconciliation of intangible assets - 2024

|                          | Opening<br>balance | Additions | Amortisation | Total  |
|--------------------------|--------------------|-----------|--------------|--------|
| Computer software, other | 9 895              | 13 595    | (10 711)     | 12 779 |

#### Reconciliation of intangible assets - 2023

|                          | Opening<br>balance | Amortisation | Total |
|--------------------------|--------------------|--------------|-------|
| Computer software, other | 19 790             | (9 895)      | 9 895 |

#### Pledged as security

No intangible assets were pledged as security for any financial liability at year-end.

#### Deemed cost

Deemed cost was determined using fair value OR depreciated replacement cost.

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## Notes to the Annual Financial Statements

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### 11. Heritage assets

|                                           | 2024                |                                     |                | 2023                |                                     |                |
|-------------------------------------------|---------------------|-------------------------------------|----------------|---------------------|-------------------------------------|----------------|
|                                           | Cost /<br>Valuation | Accumulated<br>impairment<br>losses | Carrying value | Cost /<br>Valuation | Accumulated<br>impairment<br>losses | Carrying value |
| Art Collections, antiquities and exhibits | 370 999             | -                                   | 370 999        | 370 999             | -                                   | 370 999        |

#### Reconciliation of heritage assets 2024

|                                           | Opening<br>balance | Total   |
|-------------------------------------------|--------------------|---------|
| Art Collections, antiquities and exhibits | 370 999            | 370 999 |

#### Reconciliation of heritage assets 2023

|                                           | Opening<br>balance | Total   |
|-------------------------------------------|--------------------|---------|
| Art Collections, antiquities and exhibits | 370 999            | 370 999 |

#### Restrictions on heritage assets

There are no restrictions on the realisability of heritage assets or the remittance of revenue and proceeds of disposal.

#### Pledged as security

There are no heritage assets pledged as security.

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## Notes to the Annual Financial Statements

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

### 11. Heritage assets (continued)

#### Revaluations

##### Art collections

The effective date of the revaluation was 2017/06/30.

No revaluations were performed during the year as there were no significant changes in the market.

### 12. Finance lease obligation

#### Minimum lease payments due

|                                                |                       |                       |
|------------------------------------------------|-----------------------|-----------------------|
| - within one year                              | 316 129               | 155 389               |
| - in second to fifth year inclusive            | 343 545               | 246 033               |
|                                                | <u>659 674</u>        | <u>401 422</u>        |
| less: future finance charges                   | (250 762)             | (283 346)             |
| <b>Present value of minimum lease payments</b> | <b><u>408 912</u></b> | <b><u>118 076</u></b> |

#### Present value of minimum lease payments due

|                                     |                |                |
|-------------------------------------|----------------|----------------|
| - within one year                   | 140 157        | 13 016         |
| - in second to fifth year inclusive | 268 755        | 105 060        |
|                                     | <u>408 912</u> | <u>118 076</u> |

|                         |                |                |
|-------------------------|----------------|----------------|
| Non-current liabilities | 268 755        | 105 060        |
| Current liabilities     | 140 157        | 13 016         |
|                         | <u>408 912</u> | <u>118 076</u> |

It is municipality policy to lease certain [property]motor vehicles and equipment under finance leases.

The average lease term was 2-3 years and the average effective borrowing rate was 11.75% (2023: 10.51%).

Interest rates are fixed at the contract date. All leases have fixed repayments 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 9.

### 13. Payables from exchange transactions

|                               |                    |                    |
|-------------------------------|--------------------|--------------------|
| Trade payables                | 278 710 877        | 256 751 719        |
| Payments received in advanced | 4 230 219          | 4 414 257          |
| Deferred revenue              | 185 058            | 138 335            |
| Unknown deposits              | 6 223 522          | 6 659 542          |
| Salary control                | 6 344 927          | 5 154 500          |
| Retention creditor            | 12 278 869         | 11 660 320         |
| Sundry creditors              | 21 244             | 38 325             |
|                               | <u>307 994 716</u> | <u>284 816 998</u> |

# Magareng Local Municipality

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## Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
|-----------------|------|------|
|-----------------|------|------|

### 14. Consumer deposits

|                          |                  |                  |
|--------------------------|------------------|------------------|
| Electricity              | 243 765          | 227 449          |
| Water                    | 676 411          | 669 569          |
| Regional services levies | 130 322          | 130 322          |
| Housing rental           | 12 598           | 12 598           |
|                          | <b>1 063 096</b> | <b>1 039 938</b> |

### 15. Employee benefit obligation - current

|                                                       |                  |                  |
|-------------------------------------------------------|------------------|------------------|
| Staff bonuses                                         | 1 538 905        | 1 456 876        |
| Staff leave                                           | 5 123 040        | 4 849 990        |
| Current Portion of Post Retirement Benefits - Note 17 | 250 000          | 231 000          |
| Current Portion of Long-Service Provisions - Note 17  | 480 000          | 563 000          |
|                                                       | <b>7 391 945</b> | <b>7 100 866</b> |

#### Staff Bonuses

|                                      |                  |                  |
|--------------------------------------|------------------|------------------|
| Balance at the beginning of the year | 1 456 875        | 1 397 817        |
| Contribution to current portion      | 2 789 842        | 2 502 485        |
| Expenditure incurred                 | (2 707 812)      | (2 443 427)      |
|                                      | <b>1 538 905</b> | <b>1 456 875</b> |

Bonuses have been paid to all Municipal staff including the Section 57 Managers as per their package structures. The balance at year end represent the portion of the bonus that have already vested for the current salary cycle. There is no possibility of reimbursement

#### Staff Leave

|                                      |                  |                  |
|--------------------------------------|------------------|------------------|
| Balance at the beginning of the year | 4 849 990        | 4 840 211        |
| Contribution to current portion      | 656 772          | 514 064          |
| Expenditure incurred                 | (383 722)        | (504 285)        |
|                                      | <b>5 123 040</b> | <b>4 849 990</b> |

Staff leave accrued to employees according to collective agreement. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave. There is no possibility of reimbursement

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### 16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

|                                            |                |                  |
|--------------------------------------------|----------------|------------------|
| Municipal Disaster Relief Grant (MDG)      | -              | 5 145 001        |
| Library Development Fund                   | 300 413        | 333 439          |
| Municipal Infrastructure Grant (MIG)       | 505 040        | 1 650 282        |
| Water Services Infrastructure Grant (WSIG) | -              | 1 890 725        |
|                                            | <b>805 453</b> | <b>9 019 447</b> |

#### Movement during the year

|                                      |                |                  |
|--------------------------------------|----------------|------------------|
| Balance at the beginning of the year | 9 019 446      | 5 202 453        |
| Additions during the year            | 124 910 212    | 104 475 800      |
| Income recognition during the year   | (131 233 480)  | (95 234 355)     |
| Funds forfeited                      | (1 890 725)    | (5 424 451)      |
|                                      | <b>805 453</b> | <b>9 019 447</b> |

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.

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### 17. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

#### Carrying value

|                                                                         |                    |                    |
|-------------------------------------------------------------------------|--------------------|--------------------|
| Present value of the defined benefit obligation-wholly unfunded         | (2 340 000)        | (2 266 000)        |
| Present value of the defined benefit obligation-partly or wholly funded | (2 780 000)        | (2 932 000)        |
|                                                                         | <b>(5 120 000)</b> | <b>(5 198 000)</b> |

|                         |                    |                    |
|-------------------------|--------------------|--------------------|
| Non-current liabilities | (4 390 000)        | (4 404 000)        |
| Current liabilities     | (730 000)          | (794 000)          |
|                         | <b>(5 120 000)</b> | <b>(5 198 000)</b> |

#### Benefits

|                                     |                    |                    |
|-------------------------------------|--------------------|--------------------|
| Post-retirement medical aid benefit | (2 090 000)        | (2 035 000)        |
| Long service awards                 | (2 300 000)        | (2 369 000)        |
|                                     | <b>(4 390 000)</b> | <b>(4 404 000)</b> |

#### Post retirement benefits

##### Post Retirement Medical Aid Benefit

|                                   |                    |                    |
|-----------------------------------|--------------------|--------------------|
| Balance 1 July                    | (2 266 000)        | (2 378 000)        |
| Interest cost                     | (240 000)          | (246 000)          |
| Benefits paid during the year     | 336 011            | 309 928            |
| Actuarial gains/(losses)          | (170 011)          | 48 072             |
|                                   | <b>(2 340 000)</b> | <b>(2 266 000)</b> |
| Less: Transfer to current portion | 250 000            | 231 000            |
|                                   | <b>(2 090 000)</b> | <b>(2 035 000)</b> |

The Post Retirement Benefit Plan is a defined benefit plan, of which the members are made up as follows:

#### Members

|                                   |          |          |
|-----------------------------------|----------|----------|
| Current (In service) members      | -        | -        |
| Continuation members (pensioners) | 5        | 5        |
|                                   | <b>5</b> | <b>5</b> |

The liability in respect of past service has been estimated to be as follows:

#### Liability

|                                   |                  |                  |
|-----------------------------------|------------------|------------------|
| Current (In service) members      | -                | -                |
| Continuation members (pensioners) | 2 340 000        | 2 266 000        |
|                                   | <b>2 340 000</b> | <b>2 266 000</b> |

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:

- LA Health
- Keyhealth
- Bonitas
- Hosmed
- Samwumed

Key actuarial assumptions used:

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| <b>17. Employee benefit obligations (continued)</b> |        |        |
| Discount rate                                       | 10,83% | 11,15% |
| CPI (Consumer Price Inflation)                      | 4,98%  | 5,50%  |
| Health Care Cost Inflation Rate                     | 6,48%  | 7,00%  |
| Net discount rate                                   | 4,09%  | 3,88%  |

It is difficult to predict future investment returns and inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at this valuation for the period over which the DBO is to be settled.

### Discount Rate

GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the post-employment DBO. However, where there is no deep market in government bonds with sufficiently long maturity to match the estimated term of the benefit payments, current market rates of appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

Consequently, a discount rate of 10.83% per annum has been used. The corresponding index-linked yield at this term is 5.10%. These rates do not reflect any adjustment for taxation. These rates were deduced from the interest rate data obtained from the Johannesburg Stock Exchange after the market close on 28 June 2024.

Yields were determined by looking at the duration of the DBO and finding the fixed-interest and index-linked yields at the relevant duration using an iterative process (because the yields depend on the DBO, which in turn depends on the yields). The DBO's duration has been estimated to be 7.5 years.

### Health Care Cost Inflation Rate:

This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective.

A medical aid contribution inflation rate of 6.48% per annum has been assumed. This is 1.50% in excess of expected consumer price index (CPI) inflation over the expected term of the DBO, namely 4.98% per annum. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 4.09% per annum which derives from  $((1+10.83\%)/(1+6.48\%))-1$ .

The CPI inflation assumption of 4.98% per annum was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the DBO (5.10%) and those of fixed interest bonds (10.83%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was thus determined as follows:  $((1+10.83\%-0.50\%)/(1+5.10\%))-1$ .

The next contribution increase was assumed to occur with effect from 1 January 2025.

### Demographic Assumptions

Demographic assumptions are required to estimate the changing profile of retirees who are eligible for the post-employment medical aid subsidy.

### Post-Employment Mortality:

PA(90) ultimate table, adjusted down by one year of age, and a 1% annual compound mortality improvement from 2010. This means that we expect 1% fewer people to die next year. In the year thereafter, we expect 1.99% fewer people to die, i.e. 1.99% is derived from  $[1 - (1 - 1\%)^2]$ , and so on.

### Family Profile

It has been assumed that female spouses will be five years younger than their male counterparts. Actual subsidised spouse dependants were used and the potential for remarriage was ignored.

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### 17. Employee benefit obligations (continued)

Sensitivity analysis

The liability at the Valuation Date was recalculated to show the effect of:

- a one percentage point increase and decrease in the assumed rate of health care cost inflation
- a one percentage point increase and decrease in the discount rate; and
- a one-year age increase and decrease in the assumed rates of post-employment mortality

Sensitivity Analysis on the Accrued Liability

| Assumption                              | Change | % Change | Continuation members |
|-----------------------------------------|--------|----------|----------------------|
| Central assumptions                     |        |          | 2 340 000            |
| Medical aid contribution inflation rate | +1%    | 8%       | 2 516 000            |
| Medical aid contribution inflation rate | -1%    | -7%      | 2 182 000            |
| Discount rate                           | +1%    | -6%      | 2 189 000            |
| Discount rate                           | -1%    | 7%       | 2 511 000            |
| Post-employment mortality               | +1yr   | -4%      | 2 248 000            |
| Post-employment mortality               | -1yr   | 4%       | 2 431 000            |

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2024:

| Assumption                              | Change | % Change | Interest cost |
|-----------------------------------------|--------|----------|---------------|
| Central assumptions                     |        |          | 240 000       |
| Medical aid contribution inflation rate | +1%    | 8%       | 260 000       |
| Medical aid contribution inflation rate | -1%    | -7%      | 223 000       |
| Discount rate                           | +1%    | 1%       | 243 000       |
| Discount rate                           | -1%    | -2%      | 236 000       |
| Post-employment mortality               | +1yr   | -4%      | 230 000       |
| Post-employment mortality               | -1yr   | 4%       | 250 000       |

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| <b>17. Employee benefit obligations (continued)</b> |                    |                    |
| <b>Long service award</b>                           |                    |                    |
| <b>Long service award</b>                           |                    |                    |
| Balance 1 July                                      | (2 932 000)        | (2 824 000)        |
| Current service cost                                | (130 000)          | (274 000)          |
| Interest cost                                       | (294 000)          | (291 000)          |
| Benefits paid during the year                       | 230 842            | 122 916            |
| Actuarial gains/(losses)                            | 345 158            | 334 084            |
| Subtotal                                            | (2 780 000)        | (2 932 000)        |
| Less: Transfer to current portion                   | 480 000            | 563 000            |
| <b>Balance 30 June</b>                              | <b>(2 300 000)</b> | <b>(2 369 000)</b> |

The Long Service Award is a defined benefit plan, of which the members are made up as follows:

### Total eligible

|                                                                                          |     |     |
|------------------------------------------------------------------------------------------|-----|-----|
| As at year end, the following number of employees were eligible for long service bonuses | 126 | 129 |
|------------------------------------------------------------------------------------------|-----|-----|

Key actuarial assumptions used:

|                                 |        |        |
|---------------------------------|--------|--------|
| Discount rate                   | 10,97% | 11,08% |
| General earnings inflation rate | 6,14%  | 6,47%  |
| Net Effective Discount Rate     | 4,55%  | 4,33%  |

In estimating the LSA net defined benefit liability of the Municipality a number of actuarial assumptions are required. The GRAP 25 standard places the responsibility on management to set these assumptions, as guided by the principles set out in the standard and in discussion with the actuary.

It should be noted that the valuation method and assumptions do not affect the ultimate cost of the LSA arrangement – this is determined by actual experience and by the benefits provided. The method and assumptions influence how the DBO and current service costs are recognised over time.

Key Demographic assumptions

Table below summarises the key demographic assumptions used

Mortality during employment: SA 85-90

| Age Band | Withdrawal rate males | Withdrawal rate females |
|----------|-----------------------|-------------------------|
| 20       | 9%                    | 9%                      |
| 30       | 6%                    | 6%                      |
| 40       | 5%                    | 5%                      |
| 50       | 3%                    | 3%                      |
| 55       | 0%                    | 0%                      |

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### 17. Employee benefit obligations (continued)

Sensitivity analysis

The results presented in Section 6 are based on a number of assumptions. The extent to which the actual liability faced in the future by the Municipality differs from these results will depend on the extent to which actual experience differs from the assumptions made.

The assumptions which tend to have the greatest impact on the results are:

- the general earnings inflation rate assumption;
- the discount rate assumption;
- the average retirement age of employees; and
- assumed rates of withdrawal of employees from service.

The liability at the Valuation Date was recalculated to show the effect of:

- a one percentage point increase and decrease in the assumed general earnings inflation rate;
- a one percentage point increase and decrease in the discount rate;
- a two-year increase and decrease in the assumed average retirement age of eligible employees; and
- a two-fold increase and a 50% decrease in the assumed rates of withdrawal from service.

Sensitivity Analysis on the Accrued Liability

| Assumption                      | Change | % Change | Liability |
|---------------------------------|--------|----------|-----------|
| Central assumptions             |        |          | 2 780 000 |
| General earnings inflation rate | +1%    | 5%       | 2 924 000 |
| General earnings inflation rate | -1%    | -5%      | 2 648 000 |
| Discount rate                   | +1%    | -5%      | 2 643 000 |
| Discount rate                   | -1%    | 5%       | 2 932 000 |
| Average retirement age          | +2yrs  | 8%       | 3 007 000 |
| Average retirement age          | -2yrs  | -11%     | 2 480 000 |
| Withdrawal rates age            | x2     | -17%     | 2 306 000 |
| Withdrawal rates age            | x0,5   | 11%      | 3 094 000 |

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2024:

| Assumption                      | Change | % Change | Current service cost | Interest cost | Total liability |
|---------------------------------|--------|----------|----------------------|---------------|-----------------|
| Central assumptions             |        |          | 258 000              | 294 000       | 552 000         |
| General earnings inflation rate | +1%    | 6%       | 276 000              | 310 000       | 586 000         |
| General earnings inflation rate | -1%    | -6%      | 242 000              | 280 000       | 522 000         |
| Discount rate                   | +1%    | -1%      | 244 000              | 304 000       | 548 000         |
| Discount rate                   | -1%    | 1%       | 274 000              | 283 000       | 557 000         |
| Average retirement age          | +2yrs  | 8%       | 275 000              | 316 000       | 591 000         |
| Average retirement age          | -2yrs  | -10%     | 236 000              | 262 000       | 498 000         |
| Withdrawal rates                | x2     | -21%     | 195 000              | 241 000       | 436 000         |
| Withdrawal rates                | x0,5   | 15%      | 302 000              | 329 000       | 631 000         |

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### 18. Provisions

#### Reconciliation of provisions - 2024

|                              | Opening<br>Balance | Reversed<br>during the year | Change in<br>discount factor | Total     |
|------------------------------|--------------------|-----------------------------|------------------------------|-----------|
| Environmental rehabilitation | 4 708 803          | (339 287)                   | 450 060                      | 4 819 576 |

#### Reconciliation of provisions - 2023

|                              | Opening<br>Balance | Reversed<br>during the year | Change in<br>discount factor | Total     |
|------------------------------|--------------------|-----------------------------|------------------------------|-----------|
| Environmental rehabilitation | 7 099 138          | (2 830 719)                 | 440 384                      | 4 708 803 |

#### Environmental rehabilitation provision

The municipality has an obligation to rehabilitate landfill sites at the end of the expected useful life of the asset. Total cost and estimated date of decommission of the sites are as follows:

The change in estimate is mainly due to the following reasons:

- Decrease in the inflation rate 5.1% in 2024 and 5.4% in 2023.
- Increase in the upgrading and rehabilitation costs from R6 066 072 at 30 June 2023 to R6 425 410.73 at 30 June 2024.
- Increase in the post closure monitoring costs from R5 353 164 at 30 June 2023 to R5 901 857.74 at 30 June 2024.

#### Warrenton

|                                                            | Cost of<br>rehabilitation | Cost of<br>rehabilitation |
|------------------------------------------------------------|---------------------------|---------------------------|
| Rehabilitation costs at estimated decommission date - 2033 | 10 566 425                | 10 263 930                |
| Post closure monitoring - 2064                             | 43 161 584                | 43 876 802                |
|                                                            | <b>53 728 009</b>         | <b>54 140 732</b>         |

#### Area of landfill site consumed

|                    |        |        |
|--------------------|--------|--------|
| Warrenton          | 17,00% | 16,00% |
| Discount rate used | 10,30% | 10,32% |

The discount rate used to calculate the present value of the rehabilitation costs at each reporting period is based on a calculated risk free rate as determined by the municipality. The rate is considered appropriate given the municipality is in the government sector.

### 19. Service charges

|                                 |                   |                   |
|---------------------------------|-------------------|-------------------|
| Sale of electricity             | 14 623 352        | 13 929 457        |
| Sale of water                   | 3 496 775         | 6 063 821         |
| Sewerage and sanitation charges | 8 831 064         | 8 485 344         |
| Refuse removal                  | 6 513 737         | 4 618 144         |
| Other service charges           | (1 359 862)       | (280 795)         |
|                                 | <b>32 105 066</b> | <b>32 815 971</b> |

### 20. Agency services

|                    |        |        |
|--------------------|--------|--------|
| Licences and other | 75 602 | 80 520 |
|--------------------|--------|--------|

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| <b>21. Other revenue</b>                 |                      |                      |
| Rental income                            | 14 448               | 2 521                |
| Commission received from third parties   | 43 318               | 34 802               |
| Other income                             | 1 401 661            | 659 413              |
|                                          | <b>1 459 427</b>     | <b>696 736</b>       |
| <b>22. Other income</b>                  |                      |                      |
| Valuation services                       | 9 530                | 60 283               |
| Burial fees                              | 109 685              | 88 424               |
| Clearance certificates                   | 28 011               | 19 159               |
| Sale of goods                            | 250 500              | 1 500                |
| Insurance claim                          | -                    | 490 047              |
| Recovery of unauthorised debit orders    | 1 003 935            | -                    |
|                                          | <b>1 401 661</b>     | <b>659 413</b>       |
| <b>23. Investment revenue</b>            |                      |                      |
| <b>Interest revenue</b>                  |                      |                      |
| Bank                                     | 357 474              | 10 944               |
| <b>24. Property rates</b>                |                      |                      |
| <b>Rates received</b>                    |                      |                      |
| Residential                              | 5 339 526            | 5 062 636            |
| Commercial                               | 1 444 449            | 1 370 845            |
| State                                    | 2 623 845            | 2 492 179            |
| Municipal                                | 43 599               | 41 496               |
| Small holdings and farms                 | 3 411 627            | 3 246 207            |
| Industrial Property                      | 52 460               | 49 828               |
|                                          | <b>12 915 506</b>    | <b>12 263 191</b>    |
| <b>Valuations</b>                        |                      |                      |
| Residential                              | 519 288 500          | 519 288 500          |
| Commercial                               | 93 402 010           | 93 402 010           |
| State                                    | 125 360 000          | 125 360 000          |
| Municipal                                | 108 121 400          | 108 121 400          |
| Small holdings and farms                 | 938 213 000          | 938 213 000          |
| Acquired - communal property association | 23 620 000           | 23 620 000           |
| PBO - Public Benefit Organisations       | 49 530 000           | 49 530 000           |
|                                          | <b>1 857 534 910</b> | <b>1 857 534 910</b> |

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2019. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on a monthly basis and payable within 30 days. Interest at 12.75% per annum (2023: 9.25%) is levied on rates outstanding two months after due date.

The new general valuation will be implemented on 01 July 2024.

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|--------------------------------------------------------------------|--------------------|-------------------|
| <b>25. Licences and permits (non-exchange)</b>                     |                    |                   |
| Road and Transport                                                 | 178 782            | 287 541           |
| <b>26. Interest from non-exchange receivables</b>                  |                    |                   |
| Property rates                                                     | 5 530 323          | 3 020 068         |
| <b>27. Government grants &amp; subsidies</b>                       |                    |                   |
| <b>Operating grants</b>                                            |                    |                   |
| Equitable share                                                    | 59 940 725         | 57 991 452        |
| Finance Management Grant                                           | 3 000 000          | 3 000 000         |
| Frances Baard District Municipality Operating Grant                | 6 220 682          | 3 650 212         |
| Municipal Disaster Relief Fund                                     | 5 145 000          | -                 |
| Library Development Fund                                           | 1 180 026          | 766 561           |
| Expanded Public Works Programme (EPWP)                             | 712 000            | 1 073 000         |
|                                                                    | <b>76 198 433</b>  | <b>66 481 225</b> |
| <b>Capital grants</b>                                              |                    |                   |
| Municipal Infrastructure Grant                                     | 18 764 242         | 16 961 718        |
| Francis Baard District Municipality Capital Grant                  | 4 745 000          | 1 725 000         |
| Regional Bulk Infrastructure Grant (RBIG)                          | 12 010 804         | -                 |
| Water Services Infrastructure Grant (WSIG)                         | 19 515 000         | 7 109 275         |
| Emergency Funding - Water Supply Warrenton                         | -                  | 3 021 203         |
|                                                                    | <b>55 035 046</b>  | <b>28 817 196</b> |
|                                                                    | <b>131 233 479</b> | <b>95 298 421</b> |
| <b>Conditional and Unconditional</b>                               |                    |                   |
| Included in above are the following grants and subsidies received: |                    |                   |
| Conditional grants received                                        | 71 292 754         | 37 306 969        |
| Unconditional grants received                                      | 59 940 725         | 57 991 452        |
|                                                                    | <b>131 233 479</b> | <b>95 298 421</b> |
| <b>Equitable share</b>                                             |                    |                   |
| Current-year receipts                                              | 58 050 000         | 52 567 000        |
| Conditions met - transferred to revenue                            | (59 940 725)       | (57 991 452)      |
| Surrendered                                                        | 1 890 725          | 5 424 452         |
|                                                                    | <b>-</b>           | <b>-</b>          |

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

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### 27. Government grants & subsidies (continued)

#### Finance Management Grant (FMG)

|                                         |             |             |
|-----------------------------------------|-------------|-------------|
| Current-year receipts                   | 3 000 000   | 3 000 000   |
| Conditions met - transferred to revenue | (3 000 000) | (3 000 000) |
| Surrendered                             | -           | (222 000)   |
| Expensed to contracted services         | -           | 222 000     |
|                                         | <u>-</u>    | <u>-</u>    |

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

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The Finance Management Grant also pays for the cost of the Financial Management Internship Programme (eg: salary costs of the Financial Management Interns).

#### Frances Baard District Municipality Capital and Operating Grant

|                                         |              |             |
|-----------------------------------------|--------------|-------------|
| Current-year receipts - capital         | 4 745 000    | 1 725 000   |
| Current-year receipts - O&M             | 6 220 682    | 2 853 803   |
| Conditions met - transferred to revenue | (10 965 682) | (5 311 146) |
| Raised to grants receivable             | -            | 732 343     |
|                                         | <u>-</u>     | <u>-</u>    |

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

The Frances Baard Operational Grant is paid by Frances Baard District Municipality to the municipality to subsidise operational maintenance of infrastructure. Furthermore the Frances Baard District Municipality is co-funding certain infrastructure projects.

#### Municipal Disaster Relief Grant (MDR)

|                                         |             |                  |
|-----------------------------------------|-------------|------------------|
| Balance unspent at beginning of year    | 5 145 001   | 4 335 594        |
| Current-year receipts                   | -           | 5 145 000        |
| Conditions met - transferred to revenue | (5 145 001) | -                |
| Surrendered                             | -           | (4 335 593)      |
|                                         | <u>-</u>    | <u>5 145 001</u> |

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

#### Library Development Fund

|                                         |                |                |
|-----------------------------------------|----------------|----------------|
| Balance unspent at beginning of year    | 333 439        | -              |
| Current-year receipts                   | 1 147 000      | 1 100 000      |
| Conditions met - transferred to revenue | (1 180 026)    | (766 561)      |
|                                         | <u>300 413</u> | <u>333 439</u> |

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

Provide explanations of conditions still to be met and other relevant information.

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### 27. Government grants & subsidies (continued)

#### Expanded Public Works Programme (EPWP)

|                                         |           |             |
|-----------------------------------------|-----------|-------------|
| Current-year receipts                   | 712 000   | 1 073 000   |
| Conditions met - transferred to revenue | (712 000) | (1 073 000) |
|                                         | <u>-</u>  | <u>-</u>    |

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

The EPWP grant was used for road infrastructure development in the Warrenton area.

#### Municipal Infrastructure Grant (MIG)

|                                             |                |                  |
|---------------------------------------------|----------------|------------------|
| Balance unspent at beginning of year        | 1 650 282      | 866 859          |
| National Revenue Fund allocation correction | 17 619 000     | 18 612 000       |
| Conditions met - transferred to revenue     | (18 764 242)   | (16 961 718)     |
| Surrendered                                 | -              | (866 859)        |
|                                             | <u>505 040</u> | <u>1 650 282</u> |

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

The Municipal Infrastructure Grant (MIG) is a conditional grant to support municipal capital budgets to fund municipal infrastructure and to upgrade existing infrastructure, primarily benefiting poor households.

#### Regional Bulk Infrastructure Grant (RBIG)

|                                         |              |              |
|-----------------------------------------|--------------|--------------|
| Balance unspent at beginning of year    | -            | (5 817 267)  |
| Current-year receipts                   | 12 010 804   | 18 676 874   |
| Conditions met - transferred to revenue | (12 010 804) | (12 859 607) |
|                                         | <u>-</u>     | <u>-</u>     |

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

The Regional Bulk Infrastructure Grant is a conditional grant to supplement financing for the development of the regional bulk water infrastructure and regional bulk sanitation collection as well as regional water and waste water treatment works.

#### Water Services Infrastructure Grant (WSIG)

|                                         |              |                  |
|-----------------------------------------|--------------|------------------|
| Balance unspent at beginning of year    | 1 890 725    | -                |
| Current-year receipts                   | 19 515 000   | 9 000 000        |
| Conditions met - transferred to revenue | (19 515 000) | (7 109 275)      |
| Surrendered                             | (1 890 725)  | -                |
|                                         | <u>-</u>     | <u>1 890 725</u> |

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

The Water Services Infrastructure Grant (WSIG) is a conditional grant to assist water services authorities to reduce water and sanitation backlogs.

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|----------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|---------------------------|
| <b>27. Government grants &amp; subsidies (continued)</b>                                                                                                       |                           |                           |
| <b>Emergency Funding - Water Supply Warrenton</b>                                                                                                              |                           |                           |
| Current-year receipts                                                                                                                                          | -                         | 3 021 203                 |
| Conditions met - transferred to revenue                                                                                                                        | -                         | (3 021 203)               |
|                                                                                                                                                                | <u>-</u>                  | <u>-</u>                  |
| Conditions still to be met - remain liabilities (see note 16).                                                                                                 |                           |                           |
| Provide explanations of conditions still to be met and other relevant information.                                                                             |                           |                           |
| <b>28. Public contributions and donations</b>                                                                                                                  |                           |                           |
| 1% Audit fee assistance                                                                                                                                        | <u>-</u>                  | <u>1 672 536</u>          |
| The municipality received assistance during the period under review relating to payments made to the Auditor-General by the Northern Cape Provincial Treasury. |                           |                           |
| <b>29. Fines, Penalties and Forfeits</b>                                                                                                                       |                           |                           |
| Traffic fines                                                                                                                                                  | <u>394 732</u>            | <u>586 325</u>            |
| <b>30. Services in-kind</b>                                                                                                                                    |                           |                           |
| Frances Baard District Municipality                                                                                                                            | <u>207 600</u>            | <u>-</u>                  |
| Frances Baard District Municipality provided internal audit services to Magareng Local Municipality at no cost to the municipality.                            |                           |                           |
| <b>31. Debt relief</b>                                                                                                                                         |                           |                           |
| Department of Water and Sanitation                                                                                                                             | <u>5 936 376</u>          | <u>-</u>                  |
| <b>32. Revenue</b>                                                                                                                                             |                           |                           |
| Service charges                                                                                                                                                | 32 105 066                | 32 815 971                |
| Interest received (trading)                                                                                                                                    | 19 766 642                | 13 928 848                |
| Agency services                                                                                                                                                | 75 602                    | 80 520                    |
| Rental income                                                                                                                                                  | 14 448                    | 2 521                     |
| Commission received                                                                                                                                            | 43 318                    | 34 802                    |
| Other income                                                                                                                                                   | 1 401 661                 | 659 413                   |
| Interest received - investment                                                                                                                                 | 357 474                   | 10 944                    |
| Property rates                                                                                                                                                 | 12 915 506                | 12 263 191                |
| Government grants & subsidies                                                                                                                                  | 131 233 479               | 95 298 421                |
| Public contributions and donations                                                                                                                             | -                         | 1 672 536                 |
| Fines, Penalties and Forfeits                                                                                                                                  | 394 732                   | 586 325                   |
| Contributed Property, plant and equipment                                                                                                                      | 1 166 879                 | 1 132 989                 |
| Other transfer revenue 2                                                                                                                                       | 5 936 376                 | -                         |
|                                                                                                                                                                | <u><b>205 411 183</b></u> | <u><b>158 486 481</b></u> |

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### Notes to the Annual Financial Statements

| Figures in Rand                                                                                   | 2024               | 2023               |
|---------------------------------------------------------------------------------------------------|--------------------|--------------------|
| <b>32. Revenue (continued)</b>                                                                    |                    |                    |
| <b>The amount included in revenue arising from exchanges of goods or services are as follows:</b> |                    |                    |
| Service charges                                                                                   | 32 105 066         | 32 815 971         |
| Interest received (trading)                                                                       | 19 766 642         | 13 928 848         |
| Agency services                                                                                   | 75 602             | 80 520             |
| Rental income                                                                                     | 14 448             | 2 521              |
| Commission received                                                                               | 43 318             | 34 802             |
| Other income                                                                                      | 1 401 661          | 659 413            |
| Interest received - investment                                                                    | 357 474            | 10 944             |
|                                                                                                   | <b>53 764 211</b>  | <b>47 533 019</b>  |
| <b>The amount included in revenue arising from non-exchange transactions is as follows:</b>       |                    |                    |
| <b>Taxation revenue</b>                                                                           |                    |                    |
| Property rates                                                                                    | 12 915 506         | 12 263 191         |
| Licences or permits                                                                               | 178 782            | 287 541            |
| <b>Transfer revenue</b>                                                                           |                    |                    |
| Government grants & subsidies                                                                     | 131 233 479        | 95 298 421         |
| Public contributions and donations                                                                | -                  | 1 672 536          |
| Fines, Penalties and Forfeits                                                                     | 394 732            | 586 325            |
| Contributed Property, plant and equipment                                                         | 1 166 879          | 1 132 989          |
| Other transfer revenue 2                                                                          | 5 936 376          | -                  |
|                                                                                                   | <b>151 825 754</b> | <b>111 241 003</b> |

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| Figures in Rand                                                                                       | 2024              | 2023              |
|-------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| <b>33. Employee related costs</b>                                                                     |                   |                   |
| Basic                                                                                                 | 36 882 775        | 36 209 103        |
| Bonus                                                                                                 | 2 789 840         | 2 741 296         |
| Medical aid - company contributions                                                                   | 2 319 139         | 2 374 193         |
| UIF                                                                                                   | 316 296           | 329 780           |
| SDL                                                                                                   | 373 566           | 401 770           |
| Other payroll levies                                                                                  | 14 930            | 16 546            |
| Leave pay provision charge                                                                            | 656 773           | 514 064           |
| Pension contributions                                                                                 | 6 151 655         | 5 862 531         |
| Travel, motor car, accommodation, subsistence and other allowances                                    | 827 162           | 1 127 555         |
| Overtime payments                                                                                     | 996 686           | 2 718 708         |
| Long-service awards                                                                                   | 130 000           | 274 000           |
| Acting allowances                                                                                     | 253 841           | 248 391           |
| Housing benefits and allowances                                                                       | 70 383            | 69 812            |
|                                                                                                       | <b>51 783 046</b> | <b>52 887 749</b> |
| <b>Remuneration of acting municipal manager - TM Thage (1 July 2022 - 30 June 2024)</b>               |                   |                   |
| Acting allowance                                                                                      | 105 258           | 101 805           |
| <b>Remuneration of Chief Financial Officer - MM Motswaledi (July 2022 to December 2022)</b>           |                   |                   |
| Annual Remuneration                                                                                   | -                 | 427 604           |
| Travel allowance                                                                                      | -                 | 198 845           |
| Contributions to UIF, Medical and Pension Funds                                                       | -                 | 29 084            |
|                                                                                                       | -                 | <b>655 533</b>    |
| <b>Remuneration of acting Chief Financial Officer - KV Khaziwa (13 December 2022 to 30 June 2024)</b> |                   |                   |
| Acting allowance                                                                                      | 71 976            | 36 555            |
| <b>Remuneration of the HOD Corporate Services - CD Lentsoe (1 July 2022 to 30 June 2024)</b>          |                   |                   |
| Annual Remuneration                                                                                   | 717 555           | 725 024           |
| Travel allowance                                                                                      | 204 435           | 225 410           |
| Contributions to UIF, Medical and Pension Funds                                                       | 177 620           | 180 147           |
|                                                                                                       | <b>1 099 610</b>  | <b>1 130 581</b>  |
| <b>Remuneration of the HOD Technical Services - TM Thage (1 July 2022 to 30 June 2024)</b>            |                   |                   |
| Annual Remuneration                                                                                   | 689 000           | 752 149           |
| Travel allowance                                                                                      | 448 146           | 380 016           |
| Remote allowance                                                                                      | 44 747            | -                 |
| Contributions to UIF, Medical and Pension Funds                                                       | 14 191            | 13 795            |
| Cell phone                                                                                            | 9 000             | 9 000             |
|                                                                                                       | <b>1 205 084</b>  | <b>1 154 960</b>  |

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### 34. Remuneration of councillors

|                     |                  |                  |
|---------------------|------------------|------------------|
| Annual remuneration | 4 457 738        | 4 672 680        |
|                     | <b>4 457 738</b> | <b>4 672 680</b> |

### Remuneration of Mayor- NL Mase

|                           |                |                |
|---------------------------|----------------|----------------|
| Councillor salary         | 561 290        | 495 723        |
| Medical aid contributions | 37 862         | 34 468         |
| Pension contributions     | 76 187         | 74 359         |
| Travel allowance          | 227 582        | 201 516        |
| Cellphone allowance       | 45 600         | 40 800         |
|                           | <b>948 521</b> | <b>846 866</b> |

### In-kind benefits

The mayor is provided with an office at the cost of the Council.

The Mayor has the use of Council owned vehicles and a driver for official duties.

### Remuneration Councillor - WJ Potgieter

|                                           |                |                |
|-------------------------------------------|----------------|----------------|
| Councillor salary                         | 250 368        | 222 968        |
| Pension contributions                     | 33 943         | 32 993         |
| Travel allowance                          | 95 974         | 84 315         |
| Cellphone allowance                       | 45 600         | 40 800         |
| Data allowance                            | 4 008          | 3 600          |
| Contributions to pension, medical and SDL | 3 456          | -              |
|                                           | <b>433 349</b> | <b>384 676</b> |

### Remuneration of Councillor - BC Mahapa (from October 2023)

|                                           |                |          |
|-------------------------------------------|----------------|----------|
| Councillor salary                         | 177 866        | -        |
| Pension contributions                     | 25 913         | -        |
| Cellphone allowance                       | 32 400         | -        |
| Data allowance                            | 2 853          | -        |
| Contributions to pension, medical and SDL | 177            | -        |
|                                           | <b>239 209</b> | <b>-</b> |

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### 34. Remuneration of councillors (continued)

#### Remuneration of Councillor - LR Namelang (July 2023 to September 2023)

|                           |               |                |
|---------------------------|---------------|----------------|
| Councillor salary         | 68 624        | 205 618        |
| Medical aid contributions | 14 319        | 54 593         |
| Cellphone allowance       | 13 200        | 40 800         |
| Data allowance            | 1 155         | 3 600          |
| Other contributions       | 1 681         | -              |
|                           | <b>98 979</b> | <b>304 611</b> |

#### Remuneration of Councillor - KC Mekhoa

|                       |                |                |
|-----------------------|----------------|----------------|
| Councillor salary     | 252 491        | 221 818        |
| Pension contributions | 34 231         | 33 273         |
| Cellphone allowance   | 45 600         | 40 800         |
| Data allowance        | 4 008          | 3 600          |
|                       | <b>336 330</b> | <b>299 491</b> |

#### Remuneration of Councillor - L Valtyn

|                       |                |                |
|-----------------------|----------------|----------------|
| Councillor salary     | 324 030        | 284 667        |
| Pension contributions | 43 930         | 42 700         |
| Cellphone allowance   | 45 600         | 40 800         |
| Data allowance        | 4 008          | 3 600          |
|                       | <b>417 568</b> | <b>371 767</b> |

#### Remuneration of Councillor - MF Mokitimi

|                       |                |                |
|-----------------------|----------------|----------------|
| Councillor salary     | 324 030        | 284 667        |
| Pension contributions | 43 930         | 42 700         |
| Cellphone allowance   | 45 600         | 40 800         |
| Data allowance        | 4 008          | 3 600          |
|                       | <b>417 568</b> | <b>371 767</b> |

#### Remuneration of Councillor - B Mekomela

|                       |                |                |
|-----------------------|----------------|----------------|
| Councillor salary     | 250 368        | 226 063        |
| Pension contributions | 33 943         | 33 909         |
| Travel allowance      | 95 974         | 77 289         |
| Cellphone allowance   | 45 600         | 40 800         |
| Data allowance        | 4 008          | 3 600          |
|                       | <b>429 893</b> | <b>381 661</b> |

#### Remuneration of Councillor - LO Amose

|                       |                |                |
|-----------------------|----------------|----------------|
| Councillor salary     | 324 030        | 275 696        |
| Medical contributions | -              | -              |
| Pension contributions | 43 930         | 42 969         |
| Cellphone allowance   | 45 600         | 40 800         |
| Data allowance        | 4 008          | 3 600          |
|                       | <b>417 568</b> | <b>363 065</b> |

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| <b>34. Remuneration of councillors (continued)</b> |                   |                   |
| <b>Remuneration of Councillor - CM Mere</b>        |                   |                   |
| Councillor salary                                  | 243 023           | 213 500           |
| Pension contributions                              | 32 948            | 32 025            |
| Travel allowance                                   | 93 159            | 81 842            |
| Cellphone allowance                                | 45 600            | 40 800            |
| Data allowance                                     | 4 008             | 3 600             |
|                                                    | <b>418 738</b>    | <b>371 767</b>    |
| <b>Remuneration of Councillor - D Watson</b>       |                   |                   |
| Councillor salary                                  | 189 368           | 212 576           |
| Pension contributions                              | 25 674            | 31 886            |
| Travel allowance                                   | 72 591            | 10 629            |
| Cellphone allowance                                | 45 600            | 40 800            |
| Data allowance                                     | 4 008             | 3 600             |
|                                                    | <b>337 241</b>    | <b>299 491</b>    |
| <b>Remuneration of Councillor - BG Plata</b>       |                   |                   |
| Councillor salary                                  | 608 839           | 538 118           |
| Medical aid contributions                          | 30 502            | 26 017            |
| Pension contributions                              | 82 556            | 80 718            |
| Cellphone allowance                                | 45 600            | 40 800            |
|                                                    | <b>767 497</b>    | <b>685 653</b>    |
| <b>35. Depreciation and amortisation</b>           |                   |                   |
| Property, plant and equipment                      | 16 992 121        | 22 825 831        |
| Intangible assets                                  | 10 711            | 9 895             |
|                                                    | <b>17 002 832</b> | <b>22 835 726</b> |
| <b>36. Finance costs</b>                           |                   |                   |
| Trade and other payables                           | 973 442           | 6 571 860         |
| Employee benefit liability                         | 534 000           | 537 000           |
| Landfill rehabilitation provision                  | 450 060           | 440 384           |
|                                                    | <b>1 957 502</b>  | <b>7 549 244</b>  |
| <b>37. Debt impairment</b>                         |                   |                   |
| Contributions to debt impairment provision         | 63 729 369        | 17 959 625        |
| <b>38. Bulk purchases</b>                          |                   |                   |
| Electricity                                        | 26 694 259        | 23 257 242        |
| Water                                              | 3 384 765         | 6 519 950         |
|                                                    | <b>30 079 024</b> | <b>29 777 192</b> |

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|----------------------------------------------|-------------------|-------------------|
| <b>39. Contracted services</b>               |                   |                   |
| <b>Outsourced Services</b>                   |                   |                   |
| Burial Services                              | 5 000             | 5 000             |
| Business and Advisory                        | 2 047 989         | 1 325 938         |
| Catering Services                            | 162 226           | 40 815            |
| Security Services                            | 4 060 464         | 2 044 799         |
| <b>Consultants and Professional Services</b> |                   |                   |
| Business and Advisory                        | 4 269 843         | 3 293 687         |
| Legal Cost                                   | -                 | 163 922           |
| <b>Contractors</b>                           |                   |                   |
| Maintenance of Equipment                     | 29 040            | -                 |
| Safeguard and Security                       | -                 | 172 660           |
|                                              | <b>10 574 562</b> | <b>7 046 821</b>  |
| <b>40. General expenses</b>                  |                   |                   |
| Advertising                                  | 110 604           | 174 584           |
| Auditors remuneration                        | 2 709 970         | 4 048 596         |
| Bank charges                                 | 345 741           | 386 766           |
| Bursaries                                    | 424 959           | 182 842           |
| Commission paid                              | 3 801 640         | 2 264 111         |
| Communication                                | 933 158           | 906 085           |
| Computer expenses                            | 2 109 189         | 495 471           |
| Drivers licences and permits                 | 175 056           | 206 841           |
| Entertainment                                | 121 134           | 10 460            |
| Hire                                         | 31 700            | 370 521           |
| Insurance                                    | 839 694           | -                 |
| Internal audit                               | 203 300           | -                 |
| Postage and courier                          | 1 979             | 27 218            |
| Printing and stationery                      | 236 606           | 345 292           |
| Protective clothing                          | 629 242           | 4 416             |
| Staff welfare                                | 65 307            | -                 |
| Subscriptions and membership fees            | 633 520           | 625 085           |
| Travel and accomodation                      | 412 684           | 340 526           |
| Utilities - Other                            | 501 391           | -                 |
|                                              | <b>14 286 874</b> | <b>10 388 814</b> |
| <b>41. Inventory consumed</b>                |                   |                   |
| Materials, supplies and other consumables    | 9 290 047         | 6 212 658         |
| <b>42. Auditors' remuneration</b>            |                   |                   |
| Fees                                         | 2 709 970         | 4 048 596         |
| <b>43. Going concern</b>                     |                   |                   |

We draw attention to the fact that at 30 June 2024, the municipality's current liabilities exceeds it's current assets by R 259 878 672 (2022: R 231 640 840). Further, the municipality recorded a surplus of R 3 816 921 (2023: deficit R 1 904 661) for financial period ended 30 June 2023. The major contributors to the deficits are increases in depreciation, finance costs, debt impairment and employee related costs.

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### 43. Going concern (continued)

We would also want to draw attention to the fact that at 30 June 2024, the following additional factors, among others, existed at the reporting date. These factors do not, however, cause any material uncertainty regarding the ability of the municipality to continue as a going concern. Management decided to include them to provide more information to the users.

Factors that indicate an uncertainty regarding the municipality to continue as a going concern:

1. Provision for landfill site and employee benefits not cash backed.
2. The municipality experienced cash flow problems during the year, which resulted in certain creditors not being paid on time.
3. Debtors are outstanding for 2,278 days (2023: 2,537days); and significant decrease in the deficit report from the prior financial year
4. Electricity distribution losses (technical and non-technical) have increased to 33% (2023: 19%) and the water distribution losses has decreased to 97% from (2023: 80%).

Due to the fact that there is no material uncertainty about the municipality's ability to continue as a going concern, the annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

It should, however, be noted that 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 continues to procure funding for the ongoing operations of the municipality. Furthermore the municipality should ensure that they embark on implementing strategies which will strengthen its ability to continue as a going concern. The most significant of these is that the municipality is currently implementing a system to enhance revenue collection (credit control and cost containment measures), minimising distribution losses and Council approved initiatives.

The municipality still has the ability to levy rates and taxes and will continue to receive funding from government as evident from the Equitable Share allocation in terms of the Division of Revenue Act.

### 44. Cash generated from operations

|                                                        |                   |                   |
|--------------------------------------------------------|-------------------|-------------------|
| Surplus (deficit)                                      | 3 816 921         | (1 904 661)       |
| <b>Adjustments for:</b>                                |                   |                   |
| Depreciation and amortisation                          | 17 002 832        | 22 835 726        |
| Gain on sale of assets and liabilities                 | 3 105 343         | 4 503 173         |
| Impairment deficit                                     | 1 419 777         | 247 225           |
| Debt impairment                                        | 63 729 369        | 17 959 625        |
| Movements in retirement benefit assets and liabilities | 277 079           | 64 837            |
| Movements in provisions                                | 450 060           | 440 384           |
| <b>Changes in working capital:</b>                     |                   |                   |
| Inventories                                            | (5 238)           | 48 075            |
| Receivables from exchange transactions                 | (44 516 001)      | (34 578 627)      |
| Statutory receivables from non-exchange transactions   | 1 153 015         | (4 215 364)       |
| Payables from exchange transactions                    | 23 177 716        | 23 225 161        |
| VAT                                                    | (7 157 844)       | (4 218 467)       |
| Unspent conditional grants and receipts                | (8 213 994)       | 3 816 994         |
| Consumer deposits                                      | 23 158            | 5 421             |
|                                                        | <b>54 262 193</b> | <b>28 229 502</b> |

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### 45. Financial instruments disclosure

#### Categories of financial instruments

##### 2024

##### Financial assets

|                                                      | At amortised<br>cost | Total             |
|------------------------------------------------------|----------------------|-------------------|
| Statutory receivables from non-exchange transactions | 9 266 556            | 9 266 556         |
| Receivable from exchange transactions                | 4 640 982            | 4 640 982         |
| Cash and cash equivalents                            | 1 104 154            | 1 104 154         |
|                                                      | <b>15 011 692</b>    | <b>15 011 692</b> |

##### Financial liabilities

|                                         | At amortised<br>cost | Total              |
|-----------------------------------------|----------------------|--------------------|
| Payables from exchange transactions     | 307 994 716          | 307 994 716        |
| Consumer deposits                       | 1 063 096            | 1 063 096          |
| Unspent conditional grants and receipts | 805 453              | 805 453            |
|                                         | <b>309 863 265</b>   | <b>309 863 265</b> |

##### 2023

##### Financial assets

|                                                      | At amortised<br>cost | Total             |
|------------------------------------------------------|----------------------|-------------------|
| Statutory receivables from non-exchange transactions | 10 419 571           | 10 419 571        |
| Receivable from exchange transactions                | 23 854 350           | 23 854 350        |
| Cash and cash equivalents                            | 733 583              | 733 583           |
|                                                      | <b>35 007 504</b>    | <b>35 007 504</b> |

##### Financial liabilities

|                                         | At amortised<br>cost | Total              |
|-----------------------------------------|----------------------|--------------------|
| Payables from exchange transactions     | 284 816 998          | 284 816 998        |
| Consumer deposits                       | 1 039 938            | 1 039 938          |
| Unspent conditional grants and receipts | 9 019 447            | 9 019 447          |
|                                         | <b>294 876 383</b>   | <b>294 876 383</b> |

# Magareng Local Municipality

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## Notes to the Annual Financial Statements

| Figures in Rand                                                                                                                                                                | 2024           | 2023          |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|---------------|
| <b>46. Commitments</b>                                                                                                                                                         |                |               |
| <b>Authorised capital expenditure</b>                                                                                                                                          |                |               |
| <b>Already contracted for but not provided for</b>                                                                                                                             |                |               |
| • Property, plant and equipment                                                                                                                                                | 35 847 993     | 12 230 563    |
| <b>Total capital commitments</b>                                                                                                                                               |                |               |
| Already contracted for but not provided for                                                                                                                                    | 35 847 993     | 12 230 563    |
| <b>Total commitments</b>                                                                                                                                                       |                |               |
| <b>Total commitments</b>                                                                                                                                                       |                |               |
| Authorised capital expenditure                                                                                                                                                 | 35 847 993     | 12 230 563    |
| This committed expenditure relates to property and will be financed by government grants.                                                                                      |                |               |
| <b>47. Contingencies</b>                                                                                                                                                       |                |               |
| <b>Contingent liabilities</b>                                                                                                                                                  |                |               |
| TL Galane vs Magareng LM                                                                                                                                                       | -              | 32 835        |
| This relates to a civil claim and the matter is before the court. The municipality filed a notice to defend the matter through the Office of the State Attorney.               |                |               |
| Imperial Supermarket vs Magareng LM                                                                                                                                            | 50 000         | 50 000        |
| Applicant refuting the accounts of services owed to the Municipality                                                                                                           |                |               |
| IS Kgadiete vs Magareng LM                                                                                                                                                     | 198 000        | -             |
| A lawsuit from Mr IS Kgadiete against the Municipality as a second respondent claiming unlawful detention, for loss of money allegedly stolen from the taxi and loss of income |                |               |
|                                                                                                                                                                                | <b>248 000</b> | <b>82 835</b> |

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### 48. Related parties

#### Relationships

Interest in related parties

Services rendered to related parties

Councillors and /or management of the municipality  
The services rendered to related parties are charged at the approved tariffs that were advertised to the public. We have disclosed this information under the heading councillors arrear consumer accounts. Refer to 54

Compensation of related parties

Compensation of key management personnel. Refer to note 33

Compensation of related parties

Compensation of councillors. Refer to note 34

Joint ventures

Municipality has no joint venture arrangement

Associates

Municipality has no associates in their business arrangement

Related party relationship

The municipalities officials declared the following relationship with the listed companies. It should be noted that no transactions were entered into between these related parties and the municipality

Councillors

No business interest, shares and / or directorships held

Municipal manager

No business interest, shares and / or directorships held

Acting Municipal Manager

No business interest, shares and / or directorships held

Acting Chief Financial Officer

No business interest, shares and / or directorships held

HOD Corporate Services

No business interest, shares and / or directorships held

### Related party balances

#### 2024

#### Councillors

|              | Rates - Levied | Service charges | Other - Levied | Outstanding balance |
|--------------|----------------|-----------------|----------------|---------------------|
| D Watson     | (1 520)        | -               | 12             | 20                  |
| WJ Potgieter | 4 544          | 16 705          | 2 506          | 814                 |
| L Valtyn     | 4 171          | 2 884           | 437            | 31 458              |
| N Mase       | 4 918          | 4 530           | 733            | 1 563               |
| KC Mekhoa    | -              | 2 732           | 1 501          | 13 856              |
| LO Amose     | -              | 4 026           | 741            | 5 232               |
| CM Mere      | 311            | 4 026           | 17 561         | 244 719             |
| MF Mokitimi  | -              | 4 026           | 604            | 26 812              |
| BC Mahapa    | 374            | 4 026           | 4 255          | 51 883              |
|              | <b>12 798</b>  | <b>42 955</b>   | <b>28 350</b>  | <b>376 357</b>      |

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### 48. Risk management (continued)

| 2023               | Rates - Levied | Service charges | Other - Levied | Outstanding balance |
|--------------------|----------------|-----------------|----------------|---------------------|
| <b>Councillors</b> |                |                 |                |                     |
| D Watson           | 84 859         | 109 126         | 2 892          | 24 285              |
| WJ Potgieter       | 58 795         | 266 227         | 316            | 1 841               |
| L Valtyn           | 38 227         | 37 861          | 9 192          | 33 967              |
| N Mase             | 30 655         | 55 842          | 7 876          | 452                 |
| KC Mekhoa          | -              | 8 789           | 965            | 9 624               |
| LO Amose           | -              | 6 145           | 274            | 6 065               |
| CM Mere            | 1 709          | 138 396         | 71 421         | 222 821             |
| MF Mokitimi        | 20 063         | 42 136          | 21 784         | 57 231              |
| LR Mamelang        | 2 955          | 50 149          | 11 196         | 41 095              |
| B Mokokela         | -              | 8 321           | 786            | -                   |
|                    | <b>237 263</b> | <b>722 992</b>  | <b>126 702</b> | <b>397 381</b>      |

| 2024                                              | Rates - Levied | Service charges | Other - Levied | Outstanding balance |
|---------------------------------------------------|----------------|-----------------|----------------|---------------------|
| <b>Municipal Manager and Section 57 Employees</b> |                |                 |                |                     |
| C Lentsoe (HOD Corporate services)                | 4 046          | 1 869           | 280            | 1 032               |

| 2023                                              | Rates - Levied | Service charges | Other - Levied | Outstanding balance |
|---------------------------------------------------|----------------|-----------------|----------------|---------------------|
| <b>Municipal Manager and Section 57 Employees</b> |                |                 |                |                     |
| C Lentsoe (HOD Corporate services)                | 3 845          | 1 620           | -              | 490                 |

### Remuneration of management

#### Management class: Executive management

#### 2024

|                   | Annual remuneration | Acting allowance | Travel allowance | Contribution to UIF, Medical and pension funds | Other | Total     |
|-------------------|---------------------|------------------|------------------|------------------------------------------------|-------|-----------|
| <b>Name</b>       |                     |                  |                  |                                                |       |           |
| Senior Management | 1 451 302           | 177 234          | 652 581          | 191 811                                        | 9 000 | 2 481 928 |

#### 2023

|                   | Annual remuneration | Acting allowance | Travel allowance | Contribution to UIF, Medical and pension funds | Total     |
|-------------------|---------------------|------------------|------------------|------------------------------------------------|-----------|
| <b>Name</b>       |                     |                  |                  |                                                |           |
| Senior Management | 1 913 777           | 138 361          | 804 272          | 223 026                                        | 3 079 436 |

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### 49. Risk management

#### Financial risk management

##### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

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

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| 2024                                    | Less than 1<br>year | Between 1 and<br>2 years | Between 2 and<br>5 years | Over 5 years |
|-----------------------------------------|---------------------|--------------------------|--------------------------|--------------|
| Payables from exchange transactions     | 307 994 716         | -                        | -                        | -            |
| Consumer Deposits                       | 1 063 096           | -                        | -                        | -            |
| Unspent conditional grants and receipts | 805 453             | -                        | -                        | -            |
| Employee benefit obligations            | 7 391 945           | -                        | -                        | -            |
|                                         | <b>317 255 210</b>  | <b>-</b>                 | <b>-</b>                 | <b>-</b>     |
| 2023                                    | Less than 1<br>year | Between 1 and<br>2 years | Between 2 and<br>5 years | Over 5 years |
| Payables from exchange transactions     | 284 816 998         | -                        | -                        | -            |
| Consumer Deposits                       | 1 039 938           | -                        | -                        | -            |
| Unspent conditional grants and receipts | 9 019 447           | -                        | -                        | -            |
| Employee benefit obligations            | 7 100 866           | -                        | -                        | -            |
|                                         | <b>301 977 249</b>  | <b>-</b>                 | <b>-</b>                 | <b>-</b>     |

##### Credit risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the municipality to incur a financial loss.

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

Receivables are disclosed net after provisions are made for impairment and bad debts. Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in term of Council's Credit Control and Debt Collection Policy.

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

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### 49. Risk management (continued)

#### Market risk

#### Interest rate risk

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

#### Foreign exchange risk

The municipality does not hedge foreign exchange fluctuations.

#### Price risk

The municipality is not exposed to price risk as the municipality does not own any equity securities.

### 50. Events after the reporting date

The municipalities electricity tariff application for the 2024-2025 was approved by Nersa. The municipalities 2024-2025 electricity tariff application was not based on a cost of supply study as required. A High Court judgement on the 08 July 2024 concluded that the electricity tariffs for the 2024/2025 financial year as approved by Nersa were unlawful. The following are the salient points of the judgment handed down by the High Court:

- NERSA's mechanism for approval of municipal electricity tariffs as set out in its Notice to Municipal Licensed Electricity Distributors dated 29 January 2024 is declared unlawful, invalid and of no force and effect.
- No municipality shall be entitled to levy increased electricity tariffs upon end-user consumers until has granted an approval of an application in accordance with NERSA's Notice to Municipal Licensed Electricity Distributors dated 17 November 2023.
- Any municipality for whom NERSA has not granted approval of an application for increased tariffs supported by a cost of supply study in accordance with the Notice to Municipal Licensed Electricity Distributors dated 17 November 2023 shall be entitled to continue levying electricity tariffs on the same tariff as that applicable during the 2023/2024 municipal financial year.
- Municipalities shall be permitted to supplement their applications for increased electricity tariff to NERSA with cost of supply studies for NERSA's consideration and were granted 60 days from the date of the order to supplement their electricity tariff applications with cost of supply studies in accordance with the NERSA's Notice to Municipal Licensed Electricity Distributors dated 17 November 2023.

The municipality has since the High Court judgement drafted an Electricity Cost of Supply Study and intends to submit this study to NERSA before the 30th of November 2024 to supplement their electricity tariff application. The municipality implemented a 10.5% tariff increase of the 2023/2024 tariffs in the 2024/2025 financial year. The potential revenue impact of this increase is R1 535 452.

### 51. Unauthorised expenditure

|                                         |                    |                    |
|-----------------------------------------|--------------------|--------------------|
| Opening balance as previously reported  | 226 988 732        | 200 990 614        |
| Add: Unauthorised expenditure - current | 33 782 010         | 25 998 118         |
| <b>Closing balance</b>                  | <b>260 770 742</b> | <b>226 988 732</b> |

#### Operating expenditure per vote

|                                        |                   |                   |
|----------------------------------------|-------------------|-------------------|
| Vote 01 - Executive & council          | 1 990 126         | 4 273 690         |
| Vote 03 - Corporate services           | -                 | 6 239 623         |
| Vote 04 - Financial services           | -                 | 11 352 011        |
| Vote 05 - Municipal infrastructure     | 31 791 884        | -                 |
| Vote 07 - Public safety & transport    | -                 | 578 492           |
| Vote 08 - Sports, arts, parks, culture | -                 | 3 554 302         |
|                                        | <b>33 782 010</b> | <b>25 998 118</b> |

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### 52. Fruitless and wasteful expenditure

|                                                              |                   |                   |
|--------------------------------------------------------------|-------------------|-------------------|
| Opening balance as previously reported                       | 25 553 968        | 19 044 636        |
| Add: Fruitless and wasteful expenditure identified - current | 973 442           | 6 509 332         |
| <b>Closing balance</b>                                       | <b>26 527 410</b> | <b>25 553 968</b> |

### Details of fruitless and wasteful expenditure

|                                       | Disciplinary steps taken/criminal proceedings |                |                  |
|---------------------------------------|-----------------------------------------------|----------------|------------------|
| Interest on late payments - suppliers | Awaiting council decision                     | 559 343        | 5 742 223        |
| SARS interest & penalties - PAYE      | Awaiting council decision                     | 414 099        | 767 109          |
|                                       |                                               | <b>973 442</b> | <b>6 509 332</b> |

### 53. Irregular expenditure

|                                        |                    |                    |
|----------------------------------------|--------------------|--------------------|
| Opening balance as previously reported | 129 519 806        | 108 833 972        |
| Add: Irregular expenditure - current   | 43 179 183         | 20 685 834         |
| <b>Closing balance</b>                 | <b>172 698 989</b> | <b>129 519 806</b> |

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

|                                                   | Disciplinary steps taken/criminal proceedings |            |            |
|---------------------------------------------------|-----------------------------------------------|------------|------------|
| Various contraventions of procurement transcripts | Awaiting council decision                     | 43 179 183 | 20 685 834 |

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| <b>54. Additional disclosure in terms of Municipal Finance Management Act</b> |                  |                  |
| <b>Contributions to organised local government</b>                            |                  |                  |
| Opening balance                                                               | 750 272          | 550 375          |
| Current year subscription / fee                                               | (628 520)        | 625 085          |
| Amount paid - current year                                                    | (750 272)        | (425 188)        |
|                                                                               | <b>(628 520)</b> | <b>750 272</b>   |
| <b>Material losses</b>                                                        |                  |                  |
| <b>Electricity distribution losses (KWh)</b>                                  |                  |                  |
| KWh purchased                                                                 | 9 993 626        | 10 043 152       |
| KWh sold                                                                      | (6 720 741)      | (8 136 805)      |
| <b>KWh losses</b>                                                             | <b>3 272 885</b> | <b>1 906 347</b> |
| % losses                                                                      | 33               | 19               |
| Average cost per KWh unit                                                     | 2,43             | 2,13             |
| <b>Loss in Rand value</b>                                                     | <b>7 948 018</b> | <b>4 067 942</b> |
| <b>Water distribution losses (Mega litres)</b>                                |                  |                  |
| Mega litres purchased                                                         | 1 579 660        | 1 444 772        |
| Mega litres sold                                                              | (41 794)         | (287 356)        |
| <b>Mega litres losses</b>                                                     | <b>1 537 866</b> | <b>1 157 416</b> |
| % losses                                                                      | 97               | 80               |
| Average cost per unit                                                         | 1,92             | 3,30             |
| <b>Loss in Rand value</b>                                                     | <b>2 949 455</b> | <b>3 818 588</b> |
| <b>Audit fees</b>                                                             |                  |                  |
| Opening balance                                                               | 3 372 972        | 1 769 853        |
| Current year subscription / fee                                               | 3 404 150        | 5 311 455        |
| Amount paid - current year                                                    | (1 070 975)      | (1 938 483)      |
| Amount paid - previous years                                                  | (3 372 972)      | (1 769 853)      |
|                                                                               | <b>2 333 175</b> | <b>3 372 972</b> |
| <b>PAYE and UIF</b>                                                           |                  |                  |
| Opening balance                                                               | 651 708          | 1 156 399        |
| Current year subscription / fee                                               | 7 310 429        | 7 996 598        |
| Amount paid - current year                                                    | (6 142 558)      | (7 344 890)      |
| Amount paid - previous years                                                  | (651 708)        | (1 156 399)      |
|                                                                               | <b>1 167 871</b> | <b>651 708</b>   |

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

#### Pension and Medical Aid Deductions

|                                 |                  |                  |
|---------------------------------|------------------|------------------|
| Opening balance                 | 4 179 562        | 3 397 332        |
| Current year subscription / fee | 14 484 604       | 13 666 961       |
| Amount paid - current year      | (9 749 606)      | (9 487 399)      |
| Amount paid - previous years    | (4 451 970)      | (3 397 332)      |
|                                 | <b>4 462 590</b> | <b>4 179 562</b> |

#### VAT

|                |            |            |
|----------------|------------|------------|
| VAT receivable | 42 384 029 | 35 226 185 |
|----------------|------------|------------|

VAT output payables and VAT input receivables are shown in note 5.

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 30 June 2024:

| 30 June 2024            | Outstanding<br>less than 90<br>days<br>R | Outstanding<br>more than 90<br>days<br>R | Total<br>R     |
|-------------------------|------------------------------------------|------------------------------------------|----------------|
| Mayor N Mase            | 1 563                                    | -                                        | 1 563          |
| Councillor D Watson     | 20                                       | -                                        | 20             |
| Councillor WJ Potgieter | 814                                      | -                                        | 814            |
| Councillor L Valtyn     | 1 580                                    | 29 878                                   | 31 458         |
| Councillor KC Mekhoa    | 1 450                                    | 12 407                                   | 13 857         |
| Councillor LO Amose     | 1 566                                    | 3 666                                    | 5 232          |
| Councillor CM Mere      | 7 361                                    | 237 359                                  | 244 720        |
| Councillor MF Mokitimi  | 757                                      | 26 055                                   | 26 812         |
| Councillor BC Mahapa    | 2 947                                    | 48 936                                   | 51 883         |
|                         | <b>18 058</b>                            | <b>358 301</b>                           | <b>376 359</b> |

| 30 June 2023            | Outstanding<br>less than 90<br>days<br>R | Outstanding<br>more than 90<br>days<br>R | Total<br>R     |
|-------------------------|------------------------------------------|------------------------------------------|----------------|
| Mayor N Mase            | 452                                      | -                                        | 452            |
| Councillor D Watson     | 4 328                                    | 19 958                                   | 24 286         |
| Councillor WJ Potgieter | 1 841                                    | -                                        | 1 841          |
| Councillor L Valtyn     | 500                                      | 33 467                                   | 33 967         |
| Councillor KC Mekhoa    | 1 203                                    | 8 421                                    | 9 624          |
| Councillor LO Amose     | 1 589                                    | 4 476                                    | 6 065          |
| Councillor CM Mere      | 6 966                                    | 215 855                                  | 222 821        |
| Councillor MF Mokitimi  | 1 651                                    | 55 580                                   | 57 231         |
| Councillor LR Mamelang  | 2 550                                    | 38 545                                   | 41 095         |
|                         | <b>21 080</b>                            | <b>376 302</b>                           | <b>397 382</b> |

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### 55. 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.

Regulation 36(2) - Details of deviations (amounts include Value added tax) approved by the Accounting Officer in terms of Regulation 36(1)(a) and (b):

| 2024      | Amount           | Single supplier | Impractical | Emergency |
|-----------|------------------|-----------------|-------------|-----------|
| July      | 248 400          | -               | -           | 1         |
| August    | 1 386 086        | 4               | -           | 3         |
| September | 14 055           | 2               | -           | -         |
| October   | 64 557           | 1               | -           | -         |
| November  | 25 953           | 3               | -           | 1         |
| December  | 132 444          | 2               | -           | 1         |
| January   | 8 191            | 2               | -           | -         |
| March     | 4 825            | 1               | -           | -         |
| April     | 213 736          | -               | -           | 1         |
|           | <b>2 098 247</b> | <b>15</b>       | <b>-</b>    | <b>7</b>  |

| 2023     | Amount         | Single supplier | Impractical | Emergency |
|----------|----------------|-----------------|-------------|-----------|
| July     | 11 040         | 1               | -           | -         |
| August   | 3 694          | 1               | -           | -         |
| October  | 196 590        | -               | -           | 1         |
| January  | 125 400        | -               | -           | 2         |
| February | 97 790         | 1               | -           | 1         |
| March    | 28 113         | 2               | -           | 1         |
| April    | 11 408         | 1               | -           | -         |
| May      | 151 365        | 1               | -           | 1         |
|          | <b>625 400</b> | <b>7</b>        | <b>-</b>    | <b>6</b>  |

### 56. Contributed Property, Plant and Equipment

|                     |                  |                  |
|---------------------|------------------|------------------|
| Computer equipment  | 790 801          | 95 032           |
| Transport assets    | 336 078          | 944 992          |
| Tools and equipment | 40 000           | 92 965           |
|                     | <b>1 166 879</b> | <b>1 132 989</b> |

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### 57. Prior period errors

The municipality corrected the following prior period errors retrospectively and restated the comparative amounts in terms of GRAP 3 - Accounting policies, Changes in Estimates and Errors.

The correction of the error(s) results in adjustments as follows:

#### 57.1. Prior period error - General expenditure misallocations:

During the period under review it was noted that various items representing capital expenditure and movable asset additions were incorrectly to general expenditure in the year ended 30 June 2023. The comparative statements for 2022/23 financial year have been restated. The effect of the correction of the error(s) is summarised below:

##### Statement of financial position

|                                                                |         |
|----------------------------------------------------------------|---------|
| Increase in property plant and equipment infrastructure assets | 627 198 |
|----------------------------------------------------------------|---------|

##### Statement of financial performance

|                                                      |           |
|------------------------------------------------------|-----------|
| Decrease in general expenditure - inventory consumed | (627 198) |
|------------------------------------------------------|-----------|

#### 57.2. Prior period error - Misallocations various items:

During the period under review it was noted that various items were misposted in the general ledger at 30 June 2023. The comparative statements for 2022/23 financial year have been restated. The effect of the correction of the error(s) is summarised below:

##### Statement of financial position

|                                                                      |                 |
|----------------------------------------------------------------------|-----------------|
| Increase in Statutory receivables from non-exchange transactions VAT | 4 165           |
| Increase in payables from non-exchange transactions - trade payables | (38 379)        |
|                                                                      | <b>(34 214)</b> |

##### Statement of financial performance

|                                                        |               |
|--------------------------------------------------------|---------------|
| Increase in general expenses - advertising             | 6 450         |
| Increase in general expenses - printing and stationery | 11 268        |
| Increase in general expenditure - inventory consumed   | 16 496        |
|                                                        | <b>34 214</b> |

#### 57.3. Prior period error - Overstatement of payables from exchange transactions:

During the period under review it was noted that salary control balance was misstated due to incorrect recording of salary of an employee no longer in service. The comparative statements for 2022/2023 financial year have been restated. The effect of the correction of the error(s) is summarised below:

##### Statement of financial position

|                                                                  |          |
|------------------------------------------------------------------|----------|
| Decrease in payables from exchange transactions - salary control | 14 129   |
| Decrease in employee related costs                               | (14 129) |
|                                                                  | <b>-</b> |

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### 57. Prior period errors (continued)

#### 57.4. Prior period error - Infrastructure and Capital work in progress misstated due to incorrect capitalisations of components:

During the period under review it was noted that water supply infrastructure assets was mistated due to the incorrect capitalisation of various components at 30 June 2022. The comparative statements for 2022/2023 financial year have been restated. The effect of the correction of the error(s) is summarised below:

##### Statement of financial position

|                                                                   |                |
|-------------------------------------------------------------------|----------------|
| Decrease in property, plant and equipment - infrastructure assets | (5 798 575)    |
| Decrease in accumulated surplus                                   | 6 503 540      |
|                                                                   | <u>704 965</u> |

##### Statement of financial performance

|                                           |                  |
|-------------------------------------------|------------------|
| Decrease in depreciation and amortisation | <u>(704 965)</u> |
|-------------------------------------------|------------------|

#### 57.5. Prior period error - Payments in advance misstated due to incorrect ledger journal postings:

During the period under review it was noted that the payments in advance ledger control account differed from the debtors subledger listing at 30 June 2022 due to the incorrect posting of general ledger journals in the control account at 30 June 2022. The comparative statements for 2022/2023 financial year have been restated. The effect of the correction of the error(s) is summarised below:

##### Statement of financial position

|                                                                       |          |
|-----------------------------------------------------------------------|----------|
| Decrease in Payables from exchange transactions - payments in advance | 3 519    |
| Increase in accumulated surplus                                       | (3 519)  |
|                                                                       | <u>-</u> |

#### 57.6. Prior period error - Misstatement of payables from exchange transactions:

During the period under review during the performance of a trade creditors reconciliation it was noted that various creditors balances were misstated at 30 June 2023 and 30 June 2022. The comparative statements for 2022/2023 financial year have been restated. The effect of the correction of the error(s) is summarised below:

##### Statement of financial position

|                                                                    |                  |
|--------------------------------------------------------------------|------------------|
| Decrease in payables from exchange transactions - trade payables   | 2 955 545        |
| Increase in accumulated surplus                                    | (21 215)         |
| Decrease in statutory receivables from exchange transactions - VAT | (382 739)        |
|                                                                    | <u>2 551 591</u> |

##### Statement of financial performance

|                                                         |                    |
|---------------------------------------------------------|--------------------|
| Decrease in contracted services - business and advisory | <u>(2 551 591)</u> |
|---------------------------------------------------------|--------------------|

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### 57. Prior period errors (continued)

#### 57.7. Prior period error - Misstatement in the Unauthorised expenditure disclosure:

In the previous financial year the Unauthorised expenditure disclosure was misstated due to various errors as identified above.

The comparative figures for the 2022/2023 financial year have been restated. The effect of the correction of the error(s) is summarised below:

#### Unauthorised expenditure disclosure

|                               |                  |
|-------------------------------|------------------|
| Vote 01 - Executive & council | 376 971          |
| Vote 03 - Corporate services  | 6 672            |
| Vote 04 - Financial services  | 1 339 395        |
|                               | <b>1 723 038</b> |

### 58. Comparative figures

Certain comparative figures have been reclassified.

During the year under review it was noted that the prior year account balances and totals were misstated due to missmapping of various general ledger account. That error has since been rectified in the current year.

The effects of the reclassification are as follows:

#### Statement of financial performance - extract

|                                                       | Comparative<br>figures<br>previously<br>reported | Reclassification<br>n | After<br>reclassification |
|-------------------------------------------------------|--------------------------------------------------|-----------------------|---------------------------|
| Revenue from exchange transactions - Services charges | 32 814 469                                       | 1 502                 | 32 815 971                |
| Contracted services                                   | (6 431 239)                                      | (615 582)             | (7 046 821)               |
| General expenses                                      | (9 406 089)                                      | (982 725)             | (10 388 814)              |
| Inventory consumed                                    | (7 809 463)                                      | 1 596 805             | (6 212 658)               |
|                                                       | <b>9 167 678</b>                                 | <b>-</b>              | <b>9 167 678</b>          |

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### 59. Segment information

#### General information

##### Identification of segments

The municipality is organised according to functions and reports on a monthly basis on their actuals. Decisions are made regularly regarding resources to be allocated to different functions. Segments are therefore identified as the different municipal functions as on Schedule B of the budget.

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

##### Aggregated segments

The municipality operates throughout the Warrenton area. Segments have been aggregated based on the organisational structure as on the budget.

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

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

##### Reportable segment

Executive and Council  
Office of the Municipal Manager  
Corporate Services

Financial Services  
Municipal Infrastructure

Community Services  
Public Safety and Transport

Sports, Arts, Parks, Culture  
Planning & Development

##### Goods and/or services

Governing the municipality  
Head of administration  
Providing support functions such as Human resources to the municipality  
Providing support functions to the municipality  
Providing basic services to the community such as water, electricity, sewerage and refuse  
Providing other services to the community  
Ensuring public safety and providing services such as traffic law enforcement  
Providing cultural activities for the community  
Town planning, economic development etc

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### 59. Segment information (continued)

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

2024

|                                          | Executive &<br>Council | Office Of The<br>Municipal<br>Manager | Corporate<br>Services | Financial<br>Services | Municipal<br>Infrastructure | Public Safety &<br>Transport | Planning &<br>Development | Total              |
|------------------------------------------|------------------------|---------------------------------------|-----------------------|-----------------------|-----------------------------|------------------------------|---------------------------|--------------------|
| <b>Revenue</b>                           |                        |                                       |                       |                       |                             |                              |                           |                    |
| Revenue from exchange transactions       | -                      | -                                     | -                     | 1 663 898             | 51 947 311                  | 153 003                      | -                         | 53 764 212         |
| Revenue from non-exchange transactions   | 65 797 725             | -                                     | -                     | 28 549 084            | 62 036 841                  | 1 180 026                    | -                         | 157 563 676        |
| <b>Total segment revenue</b>             | <b>65 797 725</b>      | <b>-</b>                              | <b>-</b>              | <b>30 212 982</b>     | <b>113 984 152</b>          | <b>1 333 029</b>             | <b>-</b>                  | <b>211 327 888</b> |
| <b>Entity's revenue</b>                  |                        |                                       |                       |                       |                             |                              |                           | <b>211 327 888</b> |
| <b>Expenditure</b>                       |                        |                                       |                       |                       |                             |                              |                           |                    |
| Remuneration of Council                  | 4 457 738              | -                                     | -                     | -                     | -                           | -                            | -                         | 4 457 738          |
| Salaries and wages                       | 7 182 875              | 687 818                               | 7 463 285             | 10 829 288            | 16 573 763                  | 5 249 769                    | 3 796 249                 | 51 783 047         |
| Bulk purchases                           | -                      | -                                     | -                     | -                     | 30 079 024                  | -                            | -                         | 30 079 024         |
| Debt impairment                          | -                      | -                                     | -                     | 5 478 893             | 58 250 476                  | -                            | -                         | 63 729 369         |
| Depreciation and amortisation            | -                      | -                                     | -                     | 10 711                | 13 890 922                  | -                            | 3 101 199                 | 17 002 832         |
| Contracted services                      | 167 226                | -                                     | 4 180 890             | 6 226 445             | -                           | -                            | -                         | 10 574 561         |
| General expenses                         | 1 347 822              | 24 869                                | 2 695 218             | 9 933 210             | 208 547                     | 46 345                       | 30 865                    | 14 286 876         |
| Finance costs                            | -                      | -                                     | -                     | 1 507 442             | 450 060                     | -                            | -                         | 1 957 502          |
| Gains and losses                         | -                      | -                                     | (175 147)             | -                     | 4 523 904                   | 1 215                        | -                         | 4 349 972          |
| Inventory consumed                       | -                      | (50)                                  | 801 629               | -                     | 8 325 080                   | 165 488                      | (2 100)                   | 9 290 047          |
| <b>Total segment expenditure</b>         | <b>13 155 661</b>      | <b>712 637</b>                        | <b>14 965 875</b>     | <b>33 985 989</b>     | <b>132 301 776</b>          | <b>5 462 817</b>             | <b>6 926 213</b>          | <b>207 510 968</b> |
| <b>Total segmental surplus/(deficit)</b> | <b>52 642 064</b>      | <b>(712 637)</b>                      | <b>(14 965 875)</b>   | <b>(3 773 007)</b>    | <b>(18 317 624)</b>         | <b>(4 129 788)</b>           | <b>(6 926 213)</b>        | <b>3 816 920</b>   |

Management does not evaluate the assets and liabilities of the relevant sections, nor makes decisions about allocating resources, therefore assets and liabilities do not meet the definition of a segment in terms of GRAP 18.

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### 59. Segment information (continued)

#### 2023

|                                          | Executive &<br>Council | Office Of The<br>Municipal<br>Manager | Corporate<br>Services | Financial<br>Services | Municipal<br>Infrastructure | Public Safety &<br>Transport | Planning &<br>Development | Total              |
|------------------------------------------|------------------------|---------------------------------------|-----------------------|-----------------------|-----------------------------|------------------------------|---------------------------|--------------------|
| <b>Revenue</b>                           |                        |                                       |                       |                       |                             |                              |                           |                    |
| Revenue from exchange transactions       | -                      | -                                     | -                     | 11 485 432            | 35 924 362                  | 123 226                      | -                         | 47 533 020         |
| Revenue from non-exchange transactions   | 59 064 452             | -                                     | -                     | 21 088 784            | 33 341 274                  | 766 561                      | -                         | 114 261 071        |
| <b>Total segment revenue</b>             | <b>59 064 452</b>      | <b>-</b>                              | <b>-</b>              | <b>32 574 216</b>     | <b>69 265 636</b>           | <b>889 787</b>               | <b>-</b>                  | <b>161 794 091</b> |
| <b>Entity's revenue</b>                  |                        |                                       |                       |                       |                             |                              |                           | <b>161 794 091</b> |
| <b>Expenditure</b>                       |                        |                                       |                       |                       |                             |                              |                           |                    |
| Remuneration of Council                  | 4 672 680              | -                                     | -                     | -                     | -                           | -                            | -                         | 4 672 680          |
| Salaries and wages                       | 6 815 621              | 646 371                               | 7 409 978             | 9 813 761             | 17 473 001                  | 6 716 920                    | 4 012 096                 | 52 887 748         |
| Bulk purchases                           | -                      | -                                     | -                     | -                     | 31 986 692                  | -                            | -                         | 31 986 692         |
| Debt impairment                          | -                      | -                                     | -                     | 452 025               | 17 507 600                  | -                            | -                         | 17 959 625         |
| Depreciation and amortisation            | -                      | -                                     | -                     | 255 713               | 19 710 295                  | -                            | 2 869 720                 | 22 835 728         |
| Contracted services                      | 48 075                 | -                                     | 2 379 122             | 4 559 625             | -                           | -                            | 60 000                    | 7 046 822          |
| General expenses                         | 3 821 004              | 11 462                                | 1 836 635             | 7 110 729             | (2 449 787)                 | 39 764                       | 19 005                    | 10 388 812         |
| Finance costs                            | -                      | -                                     | -                     | 7 108 860             | 440 384                     | -                            | -                         | 7 549 244          |
| Gains and losses                         | -                      | -                                     | (382 156)             | -                     | 250 398                     | 4 500 000                    | -                         | 4 368 242          |
| Inventory consumed                       | -                      | (108)                                 | 3 443 277             | -                     | 512 635                     | 21 855                       | 25 500                    | 4 003 159          |
| <b>Total segment expenditure</b>         | <b>15 357 380</b>      | <b>657 725</b>                        | <b>14 686 856</b>     | <b>29 300 713</b>     | <b>85 431 218</b>           | <b>11 278 539</b>            | <b>6 986 321</b>          | <b>163 698 752</b> |
| <b>Total segmental surplus/(deficit)</b> | <b>43 707 072</b>      | <b>(657 725)</b>                      | <b>(14 686 856)</b>   | <b>3 273 503</b>      | <b>(16 165 582)</b>         | <b>(10 388 752)</b>          | <b>(6 986 321)</b>        | <b>(1 904 661)</b> |

Management does not evaluate the assets and liabilities of the relevant sections, nor makes decisions about allocating resources, therefore assets and liabilities do not meet the definition of a segment in terms of GRAP 18.

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### 60. Accounting by principals and agents

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

#### Principal in other Principal-Agent Arrangements (non-material)

Magareng Municipality is the Principal in arrangements with various service providers who sell prepaid electricity on their behalf. Prepaid vendors earn commission on the value of each transaction.

#### Compensation paid for agency activities

|            |           |           |
|------------|-----------|-----------|
| Commission | 3 801 640 | 2 251 266 |
|------------|-----------|-----------|

Magareng Municipality paid 6% commission to various service providers for acting as an agent on its behalf during the financial year.

#### Agent in arrangement

Magareng Municipality is the Agent in the Principal-Agent arrangement with the Provincial Department of Transport, and collects licencing fees on behalf of the Provincial Department of Transport. The municipality can retain a portion of the fees collected and the net amount is due to the Provincial Department. The amount retained is recorded as Agency Fees income in the Statement of Financial Performance. The amounts due to the Provincial Department at year end is included in the balances reported as Trade and Other Payables from Exchange Transactions in the Statement of Financial Position.

The municipality does not incur any expenses on behalf of the Provincial Department. No significant risks are noted to arise from the arrangement as the municipality merely collects monies on behalf of the department as part of its existing service offering at the traffic department and municipal cashier collection points. No resources are held on behalf of the Provincial Department (other than the receipts).

Magareng Municipality is also the Agent in the Principal-Agent arrangements with various third parties for authorised salary deductions from officials. The municipality receives commission on the total funds deducted on a monthly basis. The amount received is recorded Operational Revenue in the Statement of Financial Performance.

In determining whether the municipality is the agent or if not, by default the principal, in the arrangement is evaluated in terms of the specific criteria set out in GRAP 109. The municipality does not have the power to determine significant terms and conditions of the transaction, does not have the ability to use all, or substantially all of the resources resulting from the transaction for its own benefit and is not exposed to variability in the result of the transaction.

#### Compensation received for agency activities

|                 |                |                |
|-----------------|----------------|----------------|
| Commission      | 43 318         | 34 802         |
| Agency services | 75 602         | 80 520         |
|                 | <u>118 920</u> | <u>115 322</u> |

Magareng Municipality received 12% commission from the Provincial Department of Transport for acting as an agent on their behalf during the financial year. The municipality also receives commission based on third parties.

There are no resources under the custodianship of Magareng Municipality, nor have they been recognised as such.

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## Notes to the Annual Financial Statements

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### 61. Budget differences

#### Material differences between budget and actual amounts

All variances greater / less than 10% will be explained on the final Annual Financial Statements for the year ended 30 June 2024.

X1: This variance is as a result of the non payment of other services by the Ikhutseng community as well as the supply of electricity for the earea being done by Eskom and brokene meters . Currently the municipality has applied for participation in the RT29 for NT to fund the installation of smart meterring.

X2: The variance is due to the fact that the majority of municipal rental facilities are not in a good condition to be rendered out.The municipality hopes to have funds to renovate these facilities in the new fianacial year as the municipality had to reprioritise its budget towards fixing the water infrastructure as a result of the water crisis in 22/23.

X3: The municipality adjusted the budget as per the midterm perfomance actuals.

X4: The municipality did not budget for this line item.

X5: The municipality did not budget for this line item.

X6: The municipality did not budget for this line item, debt written off from DWA.

X7: The municipality did not budget for this line item.

X8: The municipality understated the budget for this line item. Due to the baseline used from last financial years actuals with CPI added.

X9: The municipality did not budget for this line item,Interest received from call accounts.

X10: The municipality adjusted as per midterm actuals.

X11: The municipality did not budget for this line item.

X12: The municipality adjusted as per the midterm actuals and the remaining months did not perform inline with the provision.

X13: The municipality receives grants as per DoRA schedule, the first adjustment was the R 5,1 million for disaster which was received in 22/23 but was allocated for 2324, The adjusted DORA decreased the MIG allocation with R 833 thousand and there was an additional allocation of R6 000 000 for MIG after the original Adjustment thus the difference of R 11 million from the approved budget of R 12,4 million and the Final budget of R 132 million.

X14: The district municipality adjusted the Capital Allocation of the municipality as per the actuals .

X15: The municipality did not budget for this line item.

X16: The municipality did not budget for this line item

X17: The variance is due to the vacant post that were budgetd for but not filled.

X18: The municipality did not budget for this line item.

X19: The municipality budget on this line item as per the Annual Financial Statement for 2022/23 actuals.

X20:The municipality did not budget for this line item.

X21: The municipality did not budget for this line item.

X22: The municipality budget on this line item as per the Annual Financial Statement for 2022/23 actuals.

X23: The adjustment and underspending on this line item is due to the strict cost containment policy that the municipality is adhering too.

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### 61. Budget differences (continued)

X24: The municipality has an a payment agreement with Eskom hence an overspending and the municipality adjusted Eskom as per the 2022/23 invoices.

X25: The adjustment on this line item due to the contract adjustment on Security and the Assets and Accountant actuals .

X26: The municipality adjusted this line item due to the debt write off as per council recommendation.

X28: The municipality adjusted this line item due to overspending, municipality tried to adhere to the strict cost containment circular issued by PT when compiling the original budget.

X29: The municipality did not budget for this line item.

X30: The municipality did not budget for this line item.

X31: The municipality budgeted for the balance sheet line items as per the actuals stated on the Annual Financial Statements of 2022/23 financial year.

X32: The municipality budgeted for the balance sheet line items as per the actuals stated on the Annual Financial Statements of 2022/23 financial year.

X33: The municipality budgeted for the balance sheet line items as per the actuals stated on the Annual Financial Statements of 2022/23 financial year.

X34: The municipality budgeted for the balance sheet line items as per the actuals stated on the Annual Financial Statements of 2022/23 financial year.

X35: The municipality budgeted for the balance sheet line items as per the actuals stated on the Annual Financial Statements of 2022/23 financial year.

X36: The municipality overstated the budget for this line item due to the municipality used this item as a balancing line for the balance sheet.

X37: The municipality budgeted for the balance sheet line items as per the actuals stated on the Annual Financial Statements of 2022/23 financial year.

X38: The municipality budgeted for the balance sheet line items as per the actuals stated on the Annual Financial Statements of 2022/23 financial year.

X39: The municipality budgeted for the balance sheet line items as per the actuals stated on the Annual Financial Statements of 2022/23 financial year.

X40: The municipality budgeted for the balance sheet line items as per the actuals stated on the Annual Financial Statements of 2022/23 financial year.

X41: The municipality budgeted for the balance sheet line items as per the actuals stated on the Annual Financial Statements of 2022/23 financial year.

X42: The municipality budgeted for the balance sheet line items as per the actuals stated on the Annual Financial Statements of 2022/23 financial year.

X43: The municipality budgeted for the balance sheet line items as per the actuals stated on the Annual Financial Statements of 2022/23 financial year.

X44: The municipality did not make provision for this line item.

X45: The municipality added this line item budget at the provision budget

X46: The municipality added this line item budget at the provision budget.

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**61. Budget differences (continued)**

X47: The municipality budgeted for the balance sheet line items as per the actuals stated on the Annual Financial Statements of 2022/23 financial year.