



Naledi Local Municipality
Demarcation Code NW392
Annual Financial Statements
for the year ended 30 June 2022

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

General Information

Country of incorporation and domicile	South Africa
Legal form of entity	Naledi Local Municipality is a Municipality in terms of section 1 of the Local Government: Municipal Structures Act (Act 117 of 1998) read with section 155 (1) of the Constitution of the republic of South Africa (Act 108 of 1996).
Nature of business and principal activities	The provision of services (electricity, water, sanitation and refuse) to communities in a sustainable manner, to promote social and economic development; and to promote a safe and healthy environment.
Legislation governing the municipality's operations	Constitution of the Republic of South Africa (Act 108 of 1998) Municipal Finance Management Act (Act no.56 of 2003) Local Government: Municipal Systems Act (Act 32 of 2000) Local Government: Municipal Structures Act (Act 117 of 1998) The Income Tax Act (Act No. 58 of 1962) Value Added Tax Act (Act No.117 of 1998) Municipal Structures Act (Act No.32 of 2000) Water Service Act (Act No. 108 of 1997) Housing Act (Act No. 107 of 1997) Municipal Property Rates Act (Act 6 of 2004) Electricity Act (Act No. 41 of 1987) Skills Development Levies Act (Act No. 9 of 1999) Employment Equity Act (Act No. 55 of 1998) Unemployment Insurance Act (Act No. 30 of 1966) Basic Conditions of Employment Act (Act No. 75 of 1997) Municipal System Amendment Act (Act No.7 of 2011) Division of Revenue Act (Act 1 of 2007) Municipal Planning and Performance Management Regulations Municipal Supply Chain Management Regulations Municipal Collective Agreements Municipal Budget and Reporting Regulations MFMA Circulars and Regulations
Mayoral committee	
Executive Mayor	Cllr. Modise O.R (Mayor) Acting (04 October 2021) Cllr. Skalk N.W (Mayor) (Deceased 03 October 2021) Cllr. Groep C.J (Speaker) Cllr. Ekkelton L (Exco chairperson)
Councillors	Cllr. Adonis J.A Cllr. Bome K.L Cllr. Lebona M.E Cllr. Bareng A.N Cllr. Brand J.G Cllr. Modise O.R Cllr. Renoster E.P Cllr. Bosman G.S Cllr. Tauwe K.B Cllr. Tshite K.D Cllr. Ncobo M.E Cllr. Gamma G Cllr. Van Huysteen H

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General Information

	Cllr. Moholo B.J Cllr. Moeng L.M Cllr. Mustafa S.M Cllr. Nyamane O.K Cllr. Groep CJ Cllr. Skalk NW Cllr. Ekkelton L Cllr. Bome KL Cllr. Ncobo M.E Cllr. Brand JG Cllr. Lebona ME Cllr. Gulane PGC Cllr. Jacobs LC Cllr. Selotlego PI Cllr. Wilson KS Cllr. Mgida FD Cllr. Setlhake LV Cllr. Letshwene EM Cllr. Molehe R Cllr. Morakile VR Cllr. Lecholo PS Cllr. Tunyiswa N Cllr. Koepile DO Cllr. Brits WH
Grading of local authority	Grade 3
Accounting Officer	Mr M.T. Segapo - Appointed (1st of September 2021) Mr S.N. Mongale - Acting (Appointed on 19th February 2021)
Chief Finance Officer (CFO)	Mr M.D.K. Maruping
Registered office	Civic Center 19A Market Street Vryburg NorthWest 8601
Business address	Civic Center 19A Market Street Vryburg NorthWest 8601
Postal address	P.O Box 35 Vryburg 8600
Bankers	ABSA First National Bank
Auditors	Auditor General of South Africa

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General Information

Attorneys

Registered Auditors

Modiboa Attorneys Inc

Duplessis Viviers Inc

M.E.Tlou Attorneys and Associates Inc

Waks Silent Attorneys Inc

Mamatela Attorneys Inc

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Abbreviations used:

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
MFMA	Municipal Finance Management Act

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Accounting Officer's Responsibilities and Approval

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

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

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

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

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

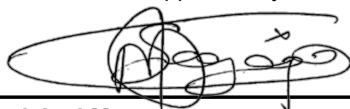
The accounting officer has reviewed the municipality's cash flow forecast for the period to 30 June 2023 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is largely 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 is 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 set out from page 7, have been prepared on the going concern basis. The annual financial statements were approved by the accounting officer on 31 August 2022 and were signed on its behalf by:



Municipal Manager
Mr M. T. Segapo

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2022.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 5 times per annum as per its approved terms of reference. During the current year 3 number of meetings were held.

Name of member	Number of meetings attended
Ms. F. Mudau (Chairperson)	3
Ms. M. Masete	3
Ms. M. Mothelesi	3
Mr. E. Van Rensburg	3
Mr. L. Barend	3

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

Evaluation of annual financial statements

The audit committee has:

- reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and the Accounting Officer;
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

The audit committee concur with and accept the Auditor-General of South Africa's report the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the Municipality and its audits.

Auditor-General of South Africa

The audit committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

Chairperson of the Audit Committee

Date: _____

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Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Position as at 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
Assets			
Current Assets			
Cash and cash equivalents	3	18 460 491	50 656 476
Inventories	4	1 084 291	1 224 294
VAT receivable	5	-	30 099 872
Receivables from non-exchange transactions	6	56 971 136	51 343 520
Receivables from exchange transactions	7	126 678 296	62 942 976
		203 194 214	196 267 138
Non-Current Assets			
Biological assets	8	3 333 867	3 592 300
Investment property	9	57 637 000	57 637 000
Property, plant and equipment	10	570 303 716	552 486 279
Heritage assets	11	1 398 001	1 358 501
		632 672 584	615 074 080
Total Assets		835 866 798	811 341 218
Liabilities			
Current Liabilities			
Other financial liabilities	12	7 141 491	12 330 905
VAT payable	5	39 171 486	-
Payables from exchange transactions	13	816 678 830	726 273 957
Consumer deposits	14	6 002 507	6 507 403
Employee benefit obligation	15	2 935 000	3 312 000
Unspent conditional grants	16	4 425 539	14 039 450
		876 354 853	762 463 715
Non-Current Liabilities			
Employee benefit obligation	15	57 276 000	52 713 000
Provisions	17	36 386 104	32 394 944
		93 662 104	85 107 944
Total Liabilities		970 016 957	847 571 659
Net Assets		(134 150 159)	(36 230 441)
Reserves			
Revaluation reserve	18	2 470 085	2 470 085
Accumulated surplus / (deficit)		(136 620 244)	(38 700 526)
Total Net Assets		(134 150 159)	(36 230 441)

* See Note 51

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Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Performance

Figures in Rand	Note(s)	2022	2021 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	19	207 983 631	219 016 443
Rental of facilities and equipment	20	1 664 201	165 652
Interest Income	21	23 899 974	21 241 928
Licences and permits	22	7 425 881	6 854 252
Other income	23	3 742 088	2 690 195
Total revenue from exchange transactions		244 715 775	249 968 470
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	24	64 115 676	72 274 070
Interest Income	25	3 992 036	1 829 139
Transfer revenue			
Government grants & subsidies	26	103 385 911	87 884 141
Fines, Penalties and Forfeits	27	3 690 050	3 546 820
Total revenue from non-exchange transactions		175 183 673	165 534 170
Total revenue	28	419 899 448	415 502 640
Expenditure			
Employee related costs	29	(212 202 745)	(192 158 174)
Remuneration of councillors	30	(8 139 045)	(8 843 681)
Depreciation and amortisation	31	(41 626 858)	(41 447 112)
Finance costs	32	(36 129 224)	(25 129 572)
Debt Impairment	33	(14 962 061)	(64 693 545)
Bulk purchases	34	(115 800 326)	(99 441 379)
Contracted services	35	(55 059 599)	(25 194 379)
General Expenses	36	(31 613 606)	(23 494 272)
Total expenditure		(515 533 464)	(480 402 114)
Operating surplus /(deficit)		(95 634 016)	(64 899 474)
Fair value adjustments	37	(3 728 710)	741 552
Actuarial gains/losses	15	1 443 000	(3 099 887)
		(2 285 710)	(2 358 335)
Surplus /(deficit) for the Period		(97 919 726)	(67 257 809)

* See Note 51

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Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus / deficit	Total net assets
Opening balance as previously reported	2 470 085	28 557 283	31 027 368
Balance at 01 July 2020 as restated*	2 470 085	28 557 283	31 027 368
Deficit for the Period	-	(67 257 809)	(67 257 809)
Total changes	-	(67 257 809)	(67 257 809)
Restated* Balance at 01 July 2021	2 470 085	(38 700 518)	(36 230 433)
Surplus for the Period	-	(97 919 726)	(97 919 726)
Total changes	-	(97 919 726)	(97 919 726)
Balance at 30 June 2022	2 470 085	(136 620 244)	(134 150 159)

* See Note 51

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Annual Financial Statements for the year ended 30 June 2022

Cash Flow Statement

Figures in Rand	Note(s)	2022	2021 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		237 467 432	238 123 742
Grants		93 772 000	94 008 000
		<u>331 239 432</u>	<u>332 131 742</u>
Payments			
Employee costs		(206 573 597)	(191 196 057)
Suppliers		(69 535 101)	(76 988 056)
Finance costs		(36 129 224)	(25 085 566)
		<u>(312 237 922)</u>	<u>(293 269 679)</u>
Net cash flows from operating activities	40	<u>19 001 510</u>	<u>38 862 063</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	10	<u>(46 008 081)</u>	<u>(12 741 803)</u>
Cash flows from financing activities			
Repayment of other financial liabilities		(5 189 414)	(1 428 767)
Net cash flows from financing activities		<u>(5 189 414)</u>	<u>(1 428 767)</u>
Net increase/(decrease) in cash and cash equivalents		<u>(32 195 985)</u>	<u>24 691 493</u>
Cash and cash equivalents at the beginning of the year		50 656 476	25 964 983
Cash and cash equivalents at the end of the year	3	<u>18 460 491</u>	<u>50 656 476</u>

* See Note 51

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	242 704 000	-	242 704 000	207 983 631	(34 720 369)	1
Rental of facilities and equipment	1 592 000	77 000	1 669 000	1 664 201	(4 799)	2
Interest income	33 721 000	30 000	33 751 000	23 899 974	(9 851 026)	3
Licences and permits	5 491 000	-	5 491 000	7 425 881	1 934 881	4
Other income	2 686 000	123 000	2 809 000	3 742 088	933 088	6
Total revenue from exchange transactions	286 194 000	230 000	286 424 000	244 715 775	(41 708 225)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	68 933 000	-	68 933 000	64 115 676	(4 817 324)	7
Licences and Permits	3 000	(3 000)	-	-	-	
Interest Income	-	-	-	3 992 036	3 992 036	8
Transfer revenue						
Government grants & subsidies	86 811 000	-	86 811 000	103 385 911	16 574 911	9
Fines, Penalties and Forfeits	1 220 000	107 000	1 327 000	3 690 050	2 363 050	10
Total revenue from non-exchange transactions	156 967 000	104 000	157 071 000	175 183 673	18 112 673	
Total revenue	443 161 000	334 000	443 495 000	419 899 448	(23 595 552)	
Expenditure						
Employee Related costs	(205 009 000)	15 717 000	(189 292 000)	(212 202 745)	(22 910 745)	11
Remuneration of councillors	(13 291 000)	(6 000)	(13 297 000)	(8 139 045)	5 157 955	12
Depreciation and amortisation	(39 326 000)	-	(39 326 000)	(41 626 858)	(2 300 858)	13
Finance costs	(41 000 000)	16 000 000	(25 000 000)	(36 129 224)	(11 129 224)	14
Debt Impairment	(15 819 000)	-	(15 819 000)	(14 962 061)	856 939	15
Bulk purchases	(141 900 000)	36 900 000	(105 000 000)	(115 800 326)	(10 800 326)	16
Contracted Services	(28 778 000)	(28 024 000)	(56 802 000)	(55 059 599)	1 742 401	17
Transfers and Subsidies	(80 000)	-	(80 000)	-	80 000	18
General Expenses	(28 012 000)	(8 492 000)	(36 504 000)	(31 613 606)	4 890 394	19
Total expenditure	(513 215 000)	32 095 000	(481 120 000)	(515 533 464)	(34 413 464)	
Operating deficit	(70 054 000)	32 429 000	(37 625 000)	(95 634 016)	(58 009 016)	
Fair value adjustments	-	-	-	(3 728 710)	(3 728 710)	
Actuarial gains/losses	-	-	-	1 443 000	1 443 000	19b
	-	-	-	(2 285 710)	(2 285 710)	
Surplus/(Deficit)	(70 054 000)	32 429 000	(37 625 000)	(97 919 726)	(60 294 726)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(70 054 000)	32 429 000	(37 625 000)	(97 919 726)	(60 294 726)	

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	-	1 222 329	1 222 329	1 084 291	(138 038)	20
Receivables from non-exchange transactions	-	-	-	56 971 136	56 971 136	21
Receivables from exchange transactions	296 610 000	(195 724 000)	100 886 000	126 678 296	25 792 296	22
Cash and cash equivalents	108 129 000	(28 600 000)	79 529 000	18 460 491	(61 068 509)	23
	404 739 000	(223 101 671)	181 637 329	203 194 214	21 556 885	
Non-Current Assets						
Biological assets	-	-	-	3 333 867	3 333 867	24
Investment property	-	-	-	57 637 000	57 637 000	24b
Property, plant and equipment	(16 890 000)	665 753 000	648 863 000	570 303 721	(78 559 279)	25
Heritage assets	-	-	-	1 398 001	1 398 001	26
	(16 890 000)	665 753 000	648 863 000	632 672 589	(16 190 411)	
Total Assets	387 849 000	442 651 329	830 500 329	835 866 803	5 366 474	
Liabilities						
Current Liabilities						
Other financial liabilities	-	9 331 000	9 331 000	7 141 491	(2 189 509)	28
VAT payable	-	-	-	39 171 486	39 171 486	29
Payables from exchange transactions	457 884 000	283 171 312	741 055 312	816 678 830	75 623 518	30
Consumer deposits	-	5 082 675	5 082 675	6 002 507	919 832	34
Employee benefit obligation	-	-	-	2 935 000	2 935 000	31
Unspent conditional grants	-	-	-	4 425 539	4 425 539	32
Provisions	23 000	3 289 000	3 312 000	-	(3 312 000)	33
	457 907 000	300 873 987	758 780 987	876 354 853	117 573 866	
Non-Current Liabilities						
Employee benefit obligation	-	-	-	57 276 000	57 276 000	35
Provisions	-	85 107 944	85 107 944	36 386 104	(48 721 840)	
	-	85 107 944	85 107 944	93 662 104	8 554 160	
Total Liabilities	457 907 000	385 981 931	843 888 931	970 016 957	126 128 026	
Net Assets	(70 058 000)	56 669 398	(13 388 602)	(134 150 154)	(120 761 552)	
Net Assets						
Reserves						
Revaluation reserve	-	-	-	2 470 085	2 470 085	
Accumulated surplus / (deficit)	(70 058 000)	56 669 398	(13 388 602)	(136 620 239)	(123 231 637)	36
Total Net Assets	(70 058 000)	56 669 398	(13 388 602)	(134 150 154)	(120 761 552)	

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

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

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

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

In the application of the municipality's accounting policies, which are described above, management is required to make judgement, estimates and assumption that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. The estimates and associated assumptions are based on historical experiences and other factors that are considered to reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Trade receivables

The municipality assesses its trade 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 is calculated on a portfolio basis, based on historical loss ratios, adjusted for 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.

Allowance for slow moving, damaged and obsolete stock

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

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Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions 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. 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. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Provisions

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

Useful lives of assets

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

Post retirement benefits

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

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

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

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.

1.4 Biological assets

The municipality recognises biological assets when, and only when:

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

Biological assets are measured at their fair value less costs to sell.

The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit.

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

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Accounting Policies

1.4 Biological assets (continued)

Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate where applicable is used to determine fair value.

Derecognition of biological assets occurs when the asset is disposed of, or when it can no longer be used to provide the service.

1.5 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.

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.

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:

The nature OR type of properties classified as held for strategic purposes are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements.

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

1.6 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 entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	20-30 years
Roads and lights	Straight line	10-40 years
Sewerage	Straight line	25-30 years
landfill site perimeter protection structure	Straight line	10-55 years
Recreational facilities	Straight line	30 years
Cemeteries	Straight line	30 years
Halls	Straight line	30 years
Libraries	Straight line	30 years
Civic buildings	Straight line	30 years
Office equipment	Straight line	7 years
Furniture and fittings	Straight line	7 years
Motor Vehicles	Straight line	7 years
Machinery and equipment	Straight line	5-10 years
IT Equipment	Straight line	5 years
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.

Naledi Local Municipality

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Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

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

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

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

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

1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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

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.

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

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that a municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

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

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Accounting Policies

1.7 Heritage assets (continued)

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Impairment

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

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.

Derecognition

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

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

1.8 Financial instruments

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

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 a municipality 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 a municipality'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').

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Accounting Policies

1.8 Financial instruments (continued)

- 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 municipality 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 municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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

A financial asset is:

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

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

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

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

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

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

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 unissued 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

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Accounting Policies

1.8 Financial instruments (continued)

- 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.

Classification

The municipality has the following types of financial assets as reflected on the face of the statement of financial position or in the notes thereto:

Class

Receivables from exchange transactions
Receivables from non exchange transactions
Cash and cash equivalents

Category

Financial asset measured at amortised cost
Financial asset measured at amortised cost
Financial asset measured at amortised cost

The municipality has the following types of financial liabilities as reflected on the face of the statement of financial position or in the notes thereto:

Class

Other financial liabilities
Payables from exchange transactions
Consumer deposits

Category

Financial liability measured at amortised cost
Financial liability measured at amortised cost
Financial liability measured at amortised cost

Naledi Local Municipality

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Accounting Policies

1.8 Financial instruments (continued)

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality 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 municipality measures a financial asset and financial liability initially at its fair value.

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Accounting Policies

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

- Financial instruments at amortised cost.

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

Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the municipality cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the municipality reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

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Accounting Policies

1.8 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, 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 municipality :
 - 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 municipality 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.

If a transfer does not result in derecognition because the municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality 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 municipality 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.

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Accounting Policies

1.8 Financial instruments (continued)

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 municipality 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.

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.

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 municipality does not offset the transferred asset and the associated liability.

1.9 Statutory receivables

Identification

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

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

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

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

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:

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

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

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

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

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Accounting Policies

1.9 Statutory receivables (continued)

Accrued interest

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

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

Other charges

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

Impairment losses

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

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

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

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

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

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

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

Derecognition

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

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

Naledi Local Municipality

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Accounting Policies

1.9 Statutory receivables (continued)

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

1.10 Tax

VAT

The municipality pays Value Added Tax (VAT) to South African Revenue Service on a payment basis in accordance with section 15(2)(a) of the Value-Added Tax Act (Act No 89 of 1991), however the municipality accounts for VAT on an accrual basis.

1.11 Leases

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

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

Finance leases - lessor

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

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

1.12 Inventories

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

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

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

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

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

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

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

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

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

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

Naledi Local Municipality

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Accounting Policies

1.13 Impairment of cash-generating assets

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

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

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

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

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

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

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

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

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

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

1.14 Employee benefits

Employee benefits are all forms of consideration given by an municipality 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 municipality, 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 municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, 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 municipality to reimburse it for employee benefits already paid.

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

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

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

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

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

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an municipality pays fixed contributions into a separate municipality (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 municipality during a reporting period, the municipality recognise 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 municipality recognise 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.

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise 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 municipality) that are held by an municipality (a fund) that is legally separate from the reporting municipality 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 municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or
- the assets are returned to the reporting municipality 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 recognise past service cost as an expense in the reporting period in which the plan is amended.

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

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

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

The municipality 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 municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality'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 municipality 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.

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.14 Employee benefits (continued)

The municipality 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 municipality 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 municipality 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, the municipality 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, the municipality 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 municipality 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 municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

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

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality 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.

1.15 Provisions and contingencies

Provisions are recognised when:

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

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

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.15 Provisions and contingencies (continued)

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 deficit.

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

A constructive obligation to restructure arises only when the municipality:

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

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 42.

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.

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.15 Provisions and contingencies (continued)

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

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

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

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

1.16 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

1.17 Revenue from exchange transactions

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

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

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

Measurement

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

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.

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.17 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest 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, in surplus or deficit, using the effective interest rate method.

1.18 Revenue from non-exchange transactions

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

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

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

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

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, the municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

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

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

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

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.

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.

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.

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

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 and/or restated 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

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 Segment information

A segment is an activity of the municipality:

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

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

1.26 Budget information

The municipality is 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 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.

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.27 Related parties

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

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

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

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

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

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

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

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

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

1.28 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.

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

There are no new standards that were issued and effective in the current year. The municipality has applied all standards and interpretations that were issued by the accounting standards board that are applicable to the municipality consistently with prior year.

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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 2022 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 25 (as revised): Employee Benefits	01 April 2022	Unlikely there will be a material impact
• iGRAP 7 (as revised): Limit on defined benefit asset, minimum funding requirements and their interaction	01 April 2022	Unlikely there will be a material impact
• GRAP 104 (as revised): Financial Instruments	01 April 2025	Unlikely there will be a material impact
• iGRAP 21: The Effect of Past Decisions on Materiality	01 April 2023	Unlikely there will be a material impact

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balance	2 992 485	18 509 369
Short-term deposits	15 468 006	32 147 107
	18 460 491	50 656 476

The following Investment accounts were closed during the year:

- ABSA- Smart meter project Call account 4094022446,
- ABSA- IDC Grant Call account 4094022488,
- ABSA- MSIG Call account 4094021686
- ABSA- LGSETA Call account 4094020761
- ABSA- Energy efficiency and demand side management grant Call account 4094022535.

Naledi Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2022			2021		
3. Cash and cash equivalents (continued)						
The entity had the following bank accounts						
Account number / description	Bank statement balances			Cash book balances		
	30 June 2022	30 June 2021	30 June 2020	30 June 2022	30 June 2021	30 June 2020
ABSA- (Primary bank account) Current account 4070282707	2 065 218	13 348 493	2 842 891	2 065 218	13 348 493	(314 583 401)
ABSA - Gold account 4085876208	413 545	4 556 446	398 771	413 545	4 556 446	398 771
FNB- Current account 54160030382	378 386	283 551	286 941	378 386	283 551	317 735 621
FNB- Gold account 62543367397	135 336	320 897	90 104	135 336	320 897	90 104
FNB- Fixed deposit 70416052060	7 900	7 900	7 900	7 900	7 900	7 900
ABSA- LGSETA Call account 4094020761	-	1 157	2 086	-	1 157	2 086
ABSA- Equitable share Call account 4094021000	1 642 466	6 382 732	5 594	1 642 466	6 382 732	5 594
ABSA- Library grant Call account 4094021220	30 329	1 188 574	1 165 585	30 329	1 188 574	1 165 585
ABSA- EPWP Call account 4094021408	32 354	489 568	480 658	32 354	489 568	480 658
ABSA- INEP Call account 4094021589	3 418 677	2 966 564	11 038 488	3 418 677	2 966 564	11 038 488
ABSA- MSIG Call account 4094021686	-	1 087	1 942	-	1 087	1 942
ABSA- District conditional grant Call account 4094021872	2 506 810	889	1 825	2 506 810	889	1 825
ABSA- FMG Call account 4094022111	507 827	3 404 071	1 745 080	507 827	3 404 071	1 745 080
ABSA- MIG Call account 4094022315	7 321 643	17 702 765	7 755 483	7 321 643	17 702 765	7 755 483
ABSA- Smart meter project Call account 4094022446	-	630	1 574	-	630	1 574
ABSA- IDC Grant Call account 4094022488	-	1 025	1 953	-	1 025	1 953
ABSA- Energy efficiency and demand side management grant Call account 4094022535	-	126	138 108	-	126	111 036
Total	18 460 491	50 656 475	25 964 983	18 460 491	50 656 475	25 960 299

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
4. Inventories		
Inventory Land	1 965	1 965
Consumable stores	173 295	14 906
Maintenance materials	767 941	1 061 820
Water for distribution	141 090	145 603
	1 084 291	1 224 294

Inventories recognised as an expense during the year 386 745 1 052 760

The municipality does not have any amount of any write-down of inventories recognized as an expense in the period. The municipality does not have any reversal of any write-down that is recognized as a reduction in the amount of inventories recognized as an expense in the period.

Inventory pledged as security

The municipality does not have inventory pledged as security.

5. VAT payable/(receivables)

VAT liability/(receivable) (9 043 006) 30 099 872

VAT receivable/payable is a statutory receivable/payable as it arises from legislation (Value-added Tax Act) and requires settlement by another entity in cash. This receivable/payable arises whenever the municipality enters into vat-able transactions and is recognised at 15% on the transaction amount

6. Receivables from non-exchange transactions

Fines	18 122 148	14 025 540
Property Rates	135 446 791	130 753 524
Allowance for impairment on Property rates	(93 793 205)	(90 561 870)
Allowance for impairment on Traffic fines	(2 804 598)	(2 873 674)
	56 971 136	51 343 520

Receivables from non exchange transactions include Property rates that are a Statutory receivable

Revenue from property rates is recognised when the legal entitlement to this revenue arises. At the time of initial recognition, the full amount of revenue is recognised. If the Municipality does not enforce its obligation to collect the revenue, this would be considered as a subsequent event. Collection charges are recognised when such amounts are legally enforceable. Rebates and discounts are offset against the related revenue, in terms of iGRAP 1, as there is no intention of collecting this revenue

Included in Receivables from non exchange transactions are Property Rates receivables as follows.

Property rates

Current (0 - 30 days)	3 770 812	14 544 253
31 - 60 days	2 805 200	2 326 981
61 - 90 days	2 547 813	2 045 282
91 - 120 days	3 200 147	1 808 180
>121 days	84 718 329	99 010 994
Allowance for Impairment	(93 793 800)	(90 561 870)
	3 248 501	29 173 820

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
7. Receivables from exchange transactions		
Gross balances		
Electricity	142 435 211	120 531 852
Water	137 710 553	120 246 841
Waste Water Management	105 843 051	88 629 372
Waste Management	104 809 020	88 222 761
Property rentals and sundry	23 148 299	20 780 187
	513 946 134	438 411 013
Less: Allowance for impairment		
Electricity	(106 421 320)	(102 963 887)
Water	(106 314 110)	(103 295 312)
Waste Water Management	(78 154 927)	(75 744 195)
Waste Management	(77 835 184)	(75 481 722)
Property rentals and sundry	(18 542 297)	(17 982 921)
	(387 267 838)	(375 468 037)
Net balance		
Electricity	36 013 891	17 567 965
Water	31 396 443	16 951 529
Waste Water Management	27 688 124	12 885 177
Waste Management	26 973 836	12 741 039
Property rentals and sundry	4 606 002	2 797 266
	126 678 296	62 942 976
Electricity		
Current (0 -30 days)	5 479 627	6 110
31 - 60 days	2 867 494	3 501 108
61 - 90 days	2 237 390	2 867 494
91 - 120 days	2 673 679	2 237 390
>120 days	129 177 021	111 919 750
Allowance for Impairment	(106 421 320)	(102 963 887)
	36 013 891	17 567 965
Water		
Current (0 -30 days)	3 180 901	610 580
31 - 60 days	2 394 293	569 052
61 - 90 days	3 124 366	2 394 293
91 - 120 days	2 713 057	3 124 366
>120 days	126 297 936	113 548 550
Allowance for Impairment	(106 314 110)	(103 295 312)
	31 396 443	16 951 529
Waste Water Management		
Current (0 -30 days)	2 363 990	4 951
31 - 60 days	2 039 005	1 023 029
61 - 90 days	1 938 631	2 039 005
91 - 120 days	1 917 265	1 938 631
>120 days	97 584 160	83 623 756
Allowance for Impairment	(78 154 927)	(75 744 195)
	27 688 124	12 885 177

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
7. Receivables from exchange transactions (continued)		
Waste Management		
Current (0 -30 days)	2 156 443	4 656
31 - 60 days	1 806 723	902 783
61 - 90 days	1 715 056	1 806 723
91 - 120 days	1 697 757	1 715 056
>120 days	91 649 254	83 793 543
Allowance for Impairment	(72 051 397)	(75 481 722)
	26 973 836	12 741 039
Property Rentals & Sundry Debtors		
Current (0 -30 days)	121 591	138 025
31 - 60 days	137 270	174 395
61 - 90 days	121 991	128 835
91 - 120 days	133 211	125 233
>120 days	22 634 236	20 213 699
Allowance for impairment	(18 542 297)	(17 982 921)
	4 606 002	2 797 266
Reconciliation of allowance for impairment		
Balance at beginning of the year	(468 903 581)	(405 460 045)
Contributions to allowance	(14 962 061)	(63 443 536)
	(483 865 642)	(468 903 581)
The following are the receivables that are past due but not impaired:		
Service		
Electricity	9 968 480	10 578 401
Water	10 586 308	8 088 979
Waste Water Management	9 331 227	6 346 576
Waste Management	6 778 414	5 682 880
Property Rentals and Sundry	487 378	441 389
	37 151 807	31 138 225
Receivables Past Due but not impaired		
1 month past due	14 695 622	12 712 037
2 months past due	8 705 365	9 281 910
3 months past due	13 750 820	9 144 278
	37 151 807	31 138 225

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

8. Biological assets

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Biological assets	3 333 867	-	3 333 867	3 592 300	-	3 592 300

Reconciliation of biological assets - 2022

	Opening balance	Additions	Gains or losses arising from changes in fair value	Total
Biological assets	3 592 300	940 357	(1 198 790)	3 333 867

Reconciliation of biological assets - 2021

	Opening balance	Additions	Disposals	Gains or losses arising from changes in fair value	Depreciation	Prior period error	Total
Biological assets	1 523 134	128 255	(122 589)	460 471	(153 429)	1 756 458	3 592 300

Pledged as security

There were no biological assets pledged as security.

9. Investment property

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	57 637 000	-	57 637 000	57 637 000	-	57 637 000

Reconciliation of investment property - 2022

	Opening balance	Total
Investment property	57 637 000	57 637 000

Reconciliation of investment property - 2021

	Opening balance	Fair Value Adjustments	Total
Investment property	57 606 000	31 000	57 637 000

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 entity.

ERF5673 portion of ERF 506 Vryburg with a fair value of R26 430 000 was pledged as security for DBSA loan

Naledi Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	76 150 106	-	76 150 106	76 150 106	-	76 150 106
Buildings	48 955 169	(39 195 574)	9 759 595	48 955 169	(37 979 304)	10 975 865
Plant and machinery	11 439 970	(6 607 069)	4 832 901	15 186 604	(7 330 759)	7 855 845
Furniture and fixtures	4 615 075	(2 838 543)	1 776 532	4 685 988	(2 217 620)	2 468 368
Motor vehicles	7 052 655	(3 322 134)	3 730 521	7 286 626	(3 483 517)	3 803 109
Office equipment	891 185	(533 384)	357 801	1 009 036	(457 722)	551 314
Computer equipment	5 414 328	(2 517 260)	2 897 068	3 222 169	(2 140 371)	1 081 798
Infrastructure	824 751 661	(441 941 903)	382 809 758	784 312 799	(421 571 121)	362 741 678
Community	148 140 708	(61 573 535)	86 567 173	143 567 899	(58 336 105)	85 231 794
Emergency	255 018	(150 375)	104 643	257 124	(125 626)	131 498
Other assets	1 904 527	(586 909)	1 317 618	1 967 101	(472 197)	1 494 904
Total	1 129 570 402	(559 266 686)	570 303 716	1 086 600 621	(534 114 342)	552 486 279

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Disposals	Transfers received	Depreciation	Total
Land	76 150 106	-	-	-	-	76 150 106
Buildings	10 975 865	-	-	-	(1 216 270)	9 759 595
Plant and machinery	7 855 246	-	(1 659 471)	-	(930 252)	5 265 523
Furniture and fixtures	2 467 693	14 200	(34 981)	-	(671 054)	1 775 858
Motor vehicles	3 803 109	1 800 522	(942 858)	-	(1 363 473)	3 297 300
Office equipment	550 458	-	(49 961)	-	(143 551)	356 946
Computer equipment	1 083 796	2 538 553	(55 960)	-	(667 322)	2 899 067
Infrastructure	370 370 711	37 081 997	-	3 356 865	(31 540 341)	379 269 232
Community	85 231 794	4 572 809	-	-	(3 237 430)	86 567 173
Emergency Equipment	131 498	-	(946)	-	(25 909)	104 643
Other equipment	1 495 034	-	(36 763)	-	(140 523)	1 317 748
	560 115 310	46 008 081	(2 780 940)	3 356 865	(39 936 125)	566 763 191

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

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Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Prior period error	Transfers received	Transfers	Other	Depreciation	Total
Land	76 150 106	-	-	-	-	-	-	76 150 106
Buildings	12 192 134	-	-	-	-	-	(1 216 269)	10 975 865
Plant and machinery	9 368 677	-	5 706	-	-	-	(1 519 137)	7 855 246
Furniture and fixtures	3 037 040	1 999	98 532	-	-	-	(669 878)	2 467 693
Motor vehicles	4 844 684	-	7	-	-	-	(1 041 582)	3 803 109
Office equipment	683 138	-	10 164	-	-	-	(142 844)	550 458
Computer equipment	1 664 589	6 761	55 356	-	-	-	(642 910)	1 083 796
Infrastructure	380 943 749	8 094 261	-	-	(2 064 371)	12 548 807	(29 151 735)	370 370 711
Community	86 322 528	-	-	2 064 370	-	-	(3 155 104)	85 231 794
Emergency equipment	155 884	-	1 375	-	-	-	(25 761)	131 498
Other equipment	1 394 185	182 816	49 728	-	-	-	(131 695)	1 495 034
	576 756 714	8 285 837	220 868	2 064 370	(2 064 371)	12 548 807	(37 696 915)	560 115 310

Pledged as security

No assets pledged as security:

Reconciliation of Work-in-Progress 2022

	Included within Infrastructure	Included within Community	Total
Opening balance	9 047 932	26 651 223	35 699 155
Additions/capital expenditure	37 081 997	4 572 809	41 654 806
Transferred to completed items	(7 691 218)	(10 915 294)	(18 606 512)
	38 438 711	20 308 738	58 747 449

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

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10. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Included within Community	Total
Opening balance	84 322 254	26 651 223	110 973 477
Additions/capital expenditure	8 094 262	-	8 094 262
Transferred to completed items	(83 368 584)	-	(83 368 584)
	9 047 932	26 651 223	35 699 155

Maintenance of property, plant and equipment

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 entity.

Naledi Local Municipality

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11. Heritage assets

	2022			2021		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical buildings	1 156 001	-	1 156 001	875 020	-	875 020
Art Collections, antiquities and exhibits	242 000	-	242 000	483 481	-	483 481
Total	1 398 001	-	1 398 001	1 358 501	-	1 358 501

Reconciliation of heritage assets 2022

	Opening balance	Fair value adjustment	Total
Historical buildings	875 020	280 981	1 156 001
Art Collections, antiquities and exhibits	483 481	(241 481)	242 000
	1 358 501	39 500	1 398 001

Reconciliation of heritage assets 2021

	Opening balance	Difference	Revaluation increase/(decrease)	Total
Historical Building	900 000	(24 980)	-	875 020
Art Collections, antiques and exhibits	177 520	24 980	280 981	483 481
	1 077 520	-	280 981	1 358 501

Pledged as security

No assets pledged as security:

The municipality does not have contractual commitments for the acquisition, maintenance and restoration of heritage assets.

12. Other financial liabilities

At amortised cost

DBSA loan

7 141 491 12 330 905

The loan accrues interest at a fixed rate, interest on default is charged at 9% and is capitalised every month. The loan is repayable in monthly installments of R300 000 over 5.92 years.

Current liabilities

At amortised cost

7 141 491 12 330 905

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

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12. Other financial liabilities (continued)

Defaults and breaches

The municipality has been defaulting in paying capital and interest and that has resulted in arrears amounting to (R10 217 175,20 (2021)) R7 141 491,61 2022.

No remedies were done on the default and the municipality did not renegotiate the terms of the loan as a result of default however DBSA capitalised all arrear balances.

Securities

DBSA holds as security for the loan an original mortgage bond which was registered by the municipality over its property in favour of DBSA

Loan Number / Project Number	Start date	Planned end date	Loan term years	Interest rate on default per annum	Loan amount	Normal Value June 2022
61007376 /12008023	31.03.2016	31.01.2022	5.92	9	21 237 403	7 141 492

13. Payables from exchange transactions

Trade payables	659 830 198	580 983 705
Retentions	16 347 600	12 957 570
Advanced payments	45 122 017	61 419 898
Bonus Accrual	7 315 019	3 341 375
Leave Accrual	23 955 707	25 490 016
Unallocated Deposits	61 299 367	39 272 471
Other Creditors #20	2 808 922	2 808 922
	816 678 830	726 273 957

14. Consumer deposits

Electricity	3 891 028	4 600 635
Building Deposits	1 938 506	1 750 826
Hiring	172 973	155 942
	6 002 507	6 507 403

Consumer deposits represent amounts received in advance and held as surety for service accounts and other services.

15. Employee benefit obligations

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the medical aid fund, with which the municipality is associated, a member is entitled to continued as a member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees.

The most recent actuarial valuation of plan assets and the present value of the defined obligation were carried out at 30 June 2022 by Arch Actuarial Consulting CC. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

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	2022	2021
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15. Employee benefit obligations (continued)

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

Carrying value

Present value of unfunded obligation at the beginning of the year	(56 025 000)	(46 687 942)
Net Actuarial gains	1 443 000	(3 099 887)
Current service costs	(3 496 000)	(3 042 887)
Expected vesting service costs	3 312 000	2 373 680
Interest costs	(5 445 000)	(5 567 964)
	(60 211 000)	(56 025 000)
Non-current liabilities	(57 276 000)	(52 713 000)
Current liabilities	(2 935 000)	(3 312 000)
	(60 211 000)	(56 025 000)

The fair value of plan assets includes:

Changes in the present value of the post employment medical aid benefits are follows:

Present value of unfunded obligation at the beginning of the year	(42 618 000)	(33 511 007)
Actuarial gains/losses	1 793 000	(3 435 485)
Current service costs	(2 376 000)	(1 956 857)
Expected subsidy (benefit) payments	1 084 000	857 328
Interest costs	(4 339 000)	(4 571 979)
	(46 456 000)	(42 618 000)

Changes in the present value of long service awards liability are as follows:

Opening balance	(13 407 000)	(13 176 935)
Current Services costs	(1 120 000)	(1 086 030)
Interest costs	(1 106 000)	(995 985)
Expected benefits vesting	2 228 000	1 516 352
Actuarial Gain/Loss over the financial year	(350 000)	335 598
	(13 755 000)	(13 407 000)

Net expense of the long term employee benefits recognised in the statement of financial performance:

Current Service Cost	3 496 000	3 042 887
Interest cost	5 445 000	5 567 964
Actuarial (gains)/Losses	(1 443 000)	3 099 887
Expected benefit vesting	(3 312 000)	(2 373 680)
	4 186 000	9 337 058

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

15. Employee benefit obligations (continued)

Key assumptions used - Long service Award

The municipality has an obligation to provide long service awards benefits to all its permanent employees. The municipality operates an unfunded defined benefit plan. The actuarial valuation of the present value of the obligation at 30 June 2022 was carried out by Arch Actuarial Consulting CC. The present value of the obligation, the related current service cost and past service cost, were measured using the projected unit credit method.

Discount rates used	10,98 %	8,98 %
General Earnings Inflation rate	7,33 %	5,74 %
Net discounts rate	3,40 %	3,07 %

Key Assumptions used - Post employment medical aid benefits

Discount rates used	11,85 %	10,31 %
Health care cost inflation rate	8,45 %	6,96 %
Net discount rate	3,14 %	3,13 %

Other assumptions

Demographic Assumptions		
Normal retirement age	65	65
Average retirement age	62	62

16. Unspent conditional grants

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Expanded Public Works Programme Integrated Grant	-	129 557
Municipal Infrastructure Grant	-	11 779 188
Intergrated National Electrification Programme	656 938	64 089
IDC Grant	2 066 616	2 066 616
Disaster Grant	1 701 985	-
	4 425 539	14 039 450

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

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

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

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17. Provisions

Reconciliation of provisions - 2022

	Opening Balance	Interest	Change in estimates	Total
Environmental rehabilitation	32 394 944	634 295	3 356 865	36 386 104

Reconciliation of provisions - 2021

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	19 816 680	12 578 264	32 394 944

The Municipality has the obligation to rehabilitate the landfill sites of Naledi. The environmental rehabilitation provision represents the estimated costs to rehabilitate and close existing waste landfill sites.

The provision is recognised at the present value of the expenditure. The valuation of the landfill site provision was done by EMS Advisory (Pty) Ltd, a company which specialises in infrastructure maintenance and environmental consultancy services to municipalities and the professional valuator on the project was Aiden Bowers PrEng, with extensive experience and expertise relevant for this type of work.

The future value of the rehabilitation of landfill sites obligation was calculated by inflating the non-current cost to an estimated future cost which is then discounted to present value.

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

Because of the time value of money, provisions relating to cash outflows that arise soon after the reporting date are more onerous than those where cash outflows of the same amount arise later. Provisions are therefore discounted, where the effect is material to settle the obligation. The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted.

Total site area m2	131 875 m2
Area of waste body to be rehabilitated (m2)	23 300 m2
Estimated site closure date	2041
Assumed site start date (receiving waste)	2015
Assumed total site life (years)	30
Remaining site life (as at 1 July 2021) years	20
Estimated annual airspace consumption (2021)(m3)	16 339 m3
Estimated total airspace (m3)	873 710 m3
Estimated airspace remaining (m3)	764 946 m3
Airspace consumed to date	12.4%

18. Revaluation reserve

Revaluation reserve	2 470 085	2 470 085
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Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

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19. Service charges		
Sale of prepaid electricity	69 022 265	79 265 676
Sale of electricity	60 109 514	57 282 696
Sale of water	28 833 863	30 926 457
Waste water management	26 019 742	26 935 075
Waste management	23 998 247	24 606 539
	207 983 631	219 016 443
20. Rental of facilities and equipment		
Premises		
Rental income	1 664 201	165 652
21. Interest income		
Interest income from bank	1 221 856	579 582
Interest income from outstanding receivables	22 678 118	20 662 346
	23 899 974	21 241 928
22. Licences and permits		
Licences and permits	7 425 881	6 854 252
<p>A Principal - Agent arrangement exists between the municipality and the Department of Transport. The municipality received 20% as Agency fees. No changes to the arrangement were done during the period under review. The purpose of the arrangement is to allow for the public to obtain licenses. The system ENATIS that is used belongs to the Department of Transport</p>		
23. Other income		
Clearance fees	458 350	147 900
Tender documents	198 586	72 435
Entrance fees	18 056	4 419
Advertising	5 284	10 541
Cemetery Fees	499 498	411 069
Building plans	248 726	208 074
Consolidation Fees	268 978	137 970
Administration, management fees and other	2 044 610	1 697 787
	3 742 088	2 690 195

Naledi Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
24. Property rates		
Rates received		
Residential	18 549 788	17 753 421
Business and Commercial	20 184 598	18 129 140
State owned properties	14 078 493	26 831 924
Industrial properties	2 872 736	2 673 800
Agricultural properties	8 430 061	6 885 785
	64 115 676	72 274 070
Valuations		
Residential	2 428 293 999	2 127 181 500
Business and Commercial	1 340 402 500	1 331 230 000
State owned	353 491 000	229 985 000
Industrial	159 510 000	156 685 000
Agricultural	3 786 266 000	4 141 880 000
Municipal	755 686 000	566 033 000
Exempted Properties	249 932 000	-
Vacant	127 460 500	-
Mutiple use	71 340 000	-
	9 272 381 999	8 552 994 500
25. Interest income		
Interest - Receivables from non exchange transactions	3 992 036	1 829 139

Naledi Local Municipality

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Figures in Rand	2022	2021
26. Government grants and subsidies		
Operating grants		
Equitable share	58 599 835	65 667 000
Financial management grant	2 550 000	2 600 000
Expanded public works programmes	1 379 000	1 411 443
SETA	-	128 188
	62 528 835	69 806 631
Capital grants		
Municipal infrastructure grant	33 914 000	10 506 812
Intergrated National Electrification Programme	4 251 061	7 570 698
Municipal Disaster Recovery Grant	2 692 015	-
	40 857 076	18 077 510
	103 385 911	87 884 141

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	44 786 076	22 217 141
Unconditional grants received	58 599 835	65 667 000
	103 385 911	87 884 141

Equitable Share

In terms of section 227 of the Constitution, this grant is used to enable the municipality to provide basic services and perform functions allocated to it. The Equitable Share Grant also provides funding to the municipality to deliver free basic services to poor households and to subsidise costs of administration and other core services of the municipality. The grant is realised in full upon receipt.

Financial management grant

Current-year receipts	2 550 000	2 600 000
Conditions met - transferred to revenue	(2 550 000)	(2 600 000)
	-	-

The purpose of this grant is to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act.

Expanded public works programmes

Balance unspent at beginning of year	129 557	-
Current-year receipts	1 379 000	1 541 000
Conditions met - transferred to revenue	(1 379 000)	(1 411 443)
Offsetting of unspent grants against equitable share	(129 557)	-
	-	129 557

The purpose of the grant is to incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in the following identified focus areas, in compliance with the Expanded Public Works Programme guidelines: roads maintenance and the maintenance of buildings; low traffic volume roads and rural roads; basic services infrastructure, including water and sanitation reticulation (excluding bulk infrastructure); other economic and social infrastructure tourism and cultural industries; waste management; parks and beautification; sustainable land-based livelihoods; social services programmes; community safety programmes

Disaster Relief Grant

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

	2022	2021
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26. Government grants and subsidies (continued)

Current-year receipts	4 394 000	-
Conditions met - transferred to revenue	(2 692 015)	-
	1 701 985	-

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

Grant was used for COVID-19 relief purposes.

Municipal infrastructure grant

Balance unspent at beginning of year	11 779 188	6 588 434
Current-year receipts	33 914 000	16 686 000
Conditions met - transferred to revenue	(33 914 000)	(10 506 813)
Offsetting of unspent grants against equitable share	(11 779 188)	(988 433)
	-	11 779 188

The purpose of the grant is to provide specific capital finance for eradicating basic municipal infrastructure backlogs for poor households, microenterprises and social institutions servicing poor communities.

Integrated national electrification programme

Balance unspent at beginning of year	64 090	1 986 353
Current-year receipts	4 908 000	7 514 000
Conditions met - transferred to revenue	(4 251 061)	(7 570 697)
Offsetting of unspent grants against equitable share	(64 090)	(1 865 566)
	656 939	64 090

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

The purpose of the grant is to implement the Integrated National Electrification Programme by providing capital subsidies to Eskom to address the electrification backlog of occupied residential dwellings, the installation of bulk infrastructure and rehabilitation and refurbishment of electricity infrastructure in order to improve quality of supply in Eskom licenced areas.

IDC Grant

Balance unspent at beginning of year	2 066 616	2 066 616
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Conditions still to be met - remain liabilities (see note 16).

27. Fines, Penalties and Forfeits

Traffic Fines issued	3 690 050	3 546 820
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Naledi Local Municipality

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Figures in Rand	2022	2021
28. Revenue		
Service charges	207 983 631	219 016 443
Rental of facilities and equipment	1 664 201	165 652
Interest income	23 899 974	21 241 928
Licences and permits	7 425 881	6 854 252
Other income	3 742 088	2 690 195
Property rates	64 115 676	72 274 070
Interest income	3 992 036	1 829 139
Government grants & subsidies	103 385 911	87 884 141
Fines, Penalties and Forfeits	3 690 050	3 546 820
	419 899 448	415 502 640

The amount included in revenue arising from exchanges transactions are as follows:

Service charges	207 983 631	219 016 443
Rental of facilities and equipment	1 664 201	165 652
Interest income	23 899 974	21 241 928
Licences and permits	7 425 881	6 854 252
Other income	3 742 088	2 690 195
	244 715 775	249 968 470

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

Taxation revenue

Property rates	64 115 676	72 274 070
Interest income	3 992 036	1 829 139

Transfer revenue

Government grants & subsidies	103 385 911	87 884 141
Fines, Penalties and Forfeits	3 690 050	3 546 820

175 183 673 **165 534 170**

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
29. Employee related costs		
Basic	131 835 410	121 673 603
Bonus	14 787 472	10 052 360
Medical aid - company contributions	9 975 546	9 445 357
UIF	1 120 201	1 035 143
Bargaining Council	77 816	-
SDL	1 733 966	1 010 170
Other payroll levies	4 308 583	5 803 184
Leave pay provision charge	(286 586)	2 808 993
Scarcity Allowance	545 170	260 325
Current Service Cost	184 000	669 207
Night shifts	217 689	217 406
Travel, motor car, accommodation, subsistence and other allowances	11 022 511	10 688 091
Overtime payments	8 882 031	3 391 871
Long-service awards	2 122 712	1 262 674
Acting allowances	751 807	671 233
Housing benefits and allowances	2 500 982	2 372 616
Pension	21 583 725	20 436 441
Uniform/special/ protective clothing	456 000	-
Cellphone allowance	383 710	359 500
	212 202 745	192 158 174

Remuneration of Municipal Manager (Mr MT Segapo)

Annual remuneration	596 702	-
Rural Allowance	24 910	-
Contribution to UIF, Medical Aid and Pension	28 379	-
Travel and subsistence allowance	5 382	-
	655 373	-

Remuneration of Chief Finance Officer

Annual remuneration	854 914	223 612
Rural Allowance	36 394	8 944
Contributions to UIF, Medical and Pension Funds	1 338	2 794
Telephone allowance	6 750	2 250
	899 396	237 600

Remuneration of Corporate services Director (TN Appolus)

Annual Remuneration	1 049 802	430 679
Back pay	70 000	12 429
Rural Allowance	49 082	-
Contributions to UIF, Medical and Pension Funds	96 509	109 706
Leave Term	-	28 690
Housing Allowance	-	119 271
Back pay Housing allowance	-	10 716
Telephone allowance	6 750	4 800
Travell allowance	-	91 416
	1 272 143	807 707

Remuneration of Technical Services Director (SN Mongale)

Annual Remuneration	1 203 355	422 257
Back pay salary	-	2 314
Annual Bonuses	18 244	35 381

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
29. Employee related costs (continued)		
Rural Allowance	52 064	-
Contributions to UIF, Medical and Pension Funds	1 338	132 923
Travel allowance	-	129 662
Housing allowance	-	10 059
Telephone allowance	6 750	6 000
	1 281 751	738 596

Remuneration of Community Services Director (ME Makgahlela)

Annual Remuneration	1 059 208	430 679
Back pay salary	-	12 429
Annual Bonuses	70 000	-
Leave term	-	28 690
Contributions to UIF, Medical and Pension Funds	1 338	109 706
Telephone allowance	-	4 800
Housing allowance	-	119 271
Back pay housing allowance	-	10 716
Rural Allowance	47 548	-
Travel allowance	6 750	91 416
	1 184 844	807 707

Remuneration of Acting Chief Financial Officer (KN Gasebue)

Acting Allowance	-	56 860
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30. Remuneration of councillors

Executive Mayor (Mr NW SKULK)	228 166	966 295
Executive Mayor (Mr CJ GROEP)	844 436	-
Finance Portfolio Chairperson	799 161	715 065
Executive Committee Members	1 150 229	1 452 015
Speaker	474 652	756 828
Councillors	4 642 401	4 953 479
	8 139 045	8 843 682

The Mayor and Speaker are both full-time councillors of the municipality. Each is provided with an office and secretarial support at the cost of the Council.

31. Depreciation and amortisation

Property, plant and equipment	41 626 858	41 447 112
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32. Finance costs

Interest	36 129 224	25 129 572
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Included in Finance costs is interest on long term borrowings, interest on creditors, interest on landfill sites and interest on employee benefit obligations.

33. Debt impairment

Debt impairment	14 962 061	64 693 545
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Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
34. Bulk purchases		
Electricity - Eskom	115 800 326	99 441 379
Electricity losses		
Units purchased	81 266 165	82 484 085
Units sold	(58 848 988)	(68 423 879)
Total loss	22 417 177	14 060 206
Comprising of:		
Tariff 0.8859	-	12 455 936
Percentage Loss:		
Technical losses	28 %	15 %
35. Contracted services		
Outsourced Services		
Administrative and Support Staff	524 611	980 646
Catering Services	671 168	7 632 236
Personnel and Labour	12 099 369	1 840 683
Electrical	2 115 783	1 301 757
Consultants and Professional Services		
Business and Advisory	19 524 174	2 691 512
Legal Cost	6 417 801	2 624 312
Contractors		
Repairs and Maintenance	1 366 566	761 050
Safeguard and Security	12 340 127	7 362 183
	55 059 599	25 194 379

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
36. General expenses		
Advertising	72 703	97 497
Audit Fees	6 683 895	3 803 971
Bank charges	490 028	664 015
Computer expenses	580 930	421 103
Consumables	5 321 685	6 911 707
Entertainment	7 000	-
Hire Charges	1 997 269	1 998 596
Insurance	1 660 126	1 890 020
Conferences and seminars	489 282	450 195
Motor vehicle expenses	253 269	341 229
Fuel and oil	2 606 196	1 242 572
Postage and courier	848	-
Subscriptions and membership fees	2 188 801	-
Telephone and fax	4 436 817	2 370 933
Travel - local	748 692	35 111
Title deed search fees	3 427	7 579
Uniforms	1 024 898	909 690
Ward Committee	1 174 630	1 291 285
Repairs and maintenance	1 611 620	188 554
Bursaries	261 490	870 215
	31 613 606	23 494 272
37. Fair value adjustments		
Biological assets - (Fair value model)	(3 728 710)	741 552
38. Auditors' remuneration		
Fees	6 683 895	3 803 971
39. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Opening balance	10 771 779	5 302 263
Prior period error	-	3 869 501
Current year subscription / fee	2 188 800	1 772 093
Amount paid	(1 774 000)	(172 078)
	11 186 579	10 771 779
Audit fees		
Opening balance	10 602 981	6 839 473
Current year fee	6 683 895	3 985 813
Current year interest on outstanding balance	874 555	800 687
Amount paid	2 706 007	(1 022 992)
	20 867 438	10 602 981
PAYE		
Current year charge	22 154 571	21 811 471
Amount paid - current year	(22 154 571)	(21 811 471)
	-	-

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
39. Additional disclosure in terms of Municipal Finance Management Act (continued)		
UIF		
Current year subscription / fee	803 527	1 278 429
Amount paid - current year	(803 527)	(1 278 429)
	-	-
SDL		
Current year charge	1 294 881	2 043 828
Amount paid during the year	(1 294 881)	(2 043 828)
	-	-

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

Councillors' arrear consumer accounts

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

30 June 2022	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mr CJ GROEP	4 268	4 688	8 956
Mr JA ADONIS	246	-	246
MR WH BRITS	-	1 850	1 850
Mr PGC GULANE	2 033	198 144	200 177
	6 547	204 682	211 229
30 June 2021	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mr BJ MOHOLO	2 003	27 847	29 850
Mr CJ GROEP	4 268	4 688	8 956
MR EP RENOSTER	3 956	3 415	7 371
MR GS BOSMAN	138	7 538	7 676
MR JA ADONIS	208	-	208
MR BRAND	714	-	714
MR KD TSHITE	6 586	37 425	44 011
MR ME NCOBO	16	-	16
MR NW SKALK	(130)	-	(130)
MR OK NYAMANE	3 022	-	3 022
MR H VAN HUYSSSTEEN	2 085	961	3 046
MRS ME LEBONA	1 876	16 351	18 227
Mrs OR MODISE	-	353	353
MS AN BARENG	90	212	302
MS G GAMMA	64	357	421
MS KB TAUWE	22 479	17 376	39 855
MS SM MUSTAFA	2 028	18 348	20 376
	49 403	134 871	184 274

Naledi Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
40. Cash generated from operations		
Deficit	(97 919 726)	(67 257 809)
Adjustments for:		
Depreciation and amortisation	41 626 858	41 447 112
Other non-cash item	91 299 545	(41 970 706)
Actuarial gains	-	3 099 887
Fair value adjustments	258 433	(624 786)
Finance costs	-	5 567 964
Debt impairment	14 962 061	64 693 545
Movements in retirement benefit assets and liabilities	57 659	12 588 525
Movements in provisions	4 619 817	29 457
Loss on disposal of biological assets	98	-
Changes in working capital:		
Inventories	140 003	713 928
Receivables from exchange transactions	(69 751 334)	2 542 680
Consumer debtors	-	(35 625 959)
Other receivables from non-exchange transactions	22 693 389	(10 670 863)
Payables from exchange transactions	90 404 872	117 731 204
VAT	(69 271 358)	(56 746 585)
Unspent conditional grants	(9 613 911)	3 398 048
Consumer deposits	(504 896)	(53 579)
	19 001 510	38 862 063
41. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	20 246 026	13 594 266
Total capital commitments		
Already contracted for but not provided for	20 246 026	13 594 266
Total commitments		
Total commitments		
Authorised capital expenditure	20 246 026	13 594 266

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
42. Contingencies		
The municipality had the following contingent liabilities as at year end..		
Plaintiff claimed from Naledi Local Municipality a total amount of R509 992.62 plus interest and costs. We filed a plea and furthermore our opponents did file their discovery affidavit. The municipality was asked to investigate but until now, no documentation was received and the affidavit was therefore not drawn. The opponents however did nothing since 2015 and we do not know if they intend to proceed with this action or not.	509 993	509 993
HB Macala is suing the municipality. Matter defended. Plea filed.	65 772	65 772
Thatoo Maine instituted the matter. Notice of intention to defend was filed on 12/7/2018	-	200 000
African Hotel Dev. Pty Ltd t/a Onomo Hotel Durban summoned the Municipality for certain accommodation in Durban.	25 000	25 000
Karenza Erasmus summoned municipality for not maintaining the roads and is suing the municipality for R8059.82.	8 060	8 060
Joherda Electrical contractors Instituted action for an amount of R105 147.80 for services rendered.	105 148	105 148
Maximum Profit Recovery claiming costs plus interest. Matter is defended. Plaintiff has been appointed to assist the Municipality with VAT Recovery. Waiting for a trial date.	897 418	897 418
Matter defended and plea drafted. MP Nthali is suing the municipality for costs and interest. Instituted action for R17 490.64 plus interest and costs.	2 000 000	2 000 000
Vryburg Truck & Auto is suing the municipality for costs R399 000.00 plus costs for service rendered.	17 491	17 491
Kelesitse Beauty Baatege and 3 others suing the Municipality for a total amount of R4 041 960.00 for damages suffered as a result of sewer spillages in their farm.	399 000	399 000
Erante Consultants CC Matter is defended and still pending before court.	4 041 960	4 041 960
Malankane Consulting Engineering is suing the municipality for an amount of R1 219 910.25 for professional engineering services in various projects.	2 898 796	2 898 796
MAFABATA MOILWA is claiming an amount of R21 934.48 for damages suffered for the repairs on her vehicle following a collision as a result of a pothole at Hoffman Galeng Street.	1 219 910	1 219 910
Telkom SA is suing the Municipality for damaged cables.	21 934	21 934
Naledi LM was summoned by Mmereki herein for damages to a vehicle that drove through a pothole.	31 619	31 619
Municipality was summoned by T. Makhado based on delict for damages to a motor vehicle that was involved in a collision with a pothole	16 090	-
Municipality was summoned for an amount of R72 127,90 for damages suffered following a collision as a result of a pothole.	62 357	-
Plaintiff's Kgosiemang claim is based on delict for bodily injuries and medical expenses due to the fact that he fell in a hole.	72 127	-
	800 000	-
	15 438 677	12 442 100

Contingent assets

Erante Consultants Vs Municipality. In this matter the Plaintiff instituted action against the Municipality and claimed an amount of R250 000,00, R642954,97, R704559,65 and R1301281,20. The matter was defended in 2012 and Defendant also filed a counterclaim for an amount of R192000,00. Nothing thereafter transpired.	192 000	192 000
In this matter summons was issued against Segapo ,Pestana and Best Ever Trading. The amounts claimed herein is Claim A – R5102774,45, Claim B – R496155,68.	5 598 930	5 598 930
Cathey construction VS Naledi local municipality. Municipality is claiming an amount of R92 700 for goods paid for but not delivered	92 700	92 700

Subsequent to the disciplinary hearing in respect of the fruitless and wasteful expenditure referred to in Note 46, civil proceedings have commenced against the employees concerned to recover an amount of R -. According to Council's legal advisors, it is probable that the proceedings will result in the recovery of the full amount but this recovery is virtually certain.

Naledi Local Municipality

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Figures in Rand 2022 2021

43. Related parties

Relationships	Nature of relationship
Accounting Officer	Refer to Accounting Officer's report note
Members of key management	Refer to employee cost note 29
Councillors	Refer to note below

Close family member of key management D.M Bareng (Daughter to Bareng AN)

Related party balances

Salaries paid to related parties of Councillors and key management

D.M Bareng (Daughter to Bareng AN)	194 792	144 247
A.G Groep (Elder brother to C.J Groep)	480 703	440 128
Q Groep (Twin brother to C.J Groep)	160 596	133 069
	836 091	717 444

Remuneration of management

Refer to note "Employee Related Costs"

Councillors arrears accounts

Refer to note "Additional disclosure in terms of Municipal Finance Management Act 45"

Remuneration of Councillors

Mr NW SKALK (Mayor)	228 166	966 295
Mr CJ GROEP (Speaker)	844 436	756 828
Mr L EKKELTON	239 440	747 671
Mr JA ADONIS	470 013	715 065
Mrs OR MODISE	267 922	704 343
Ms KB TAUWE	145 361	404 763
Ms AN BARENG	119 734	325 464
Mr EP RENOSTER	115 869	325 484
Ms G GAMMA	111 362	321 616
Ms KL BOME	117 439	324 533
Mr OK NYAMANE	117 439	324 533
Mr BJ MOHOLO	117 439	324 319
Mr ME NCOBO	117 439	324 319
Ms SM MUSTAFA	117 462	324 365
Mr JG BRAND	321 139	324 319
Mrs ME LEBONA	116 641	324 834
Mrs H VAN HUYSTEEN	545 349	325 814
Mr LM MOENG	112 410	325 408
Mr KD TSHITE	316 479	325 814
Mr GS BOSMAN	113 560	322 714
Ms KL BOSANTSI	-	5 181
Ms HL PRETORIUS	4 193	-
Miss N TUNYISWA	223 738	-
Miss PI SELOTLEGO	253 812	-
Mr DO KOEPILÉ	203 636	-
Mr EM LETSHWENE	446 243	-
Mr FD MGIDA	446 243	-
Mr G PULANE	5 749	-
Mr L JACOBS	203 820	-
Mr PG GULANE	474 652	-
Mr PS LEHOLO	203 636	-
Mr WH BRITS	203 636	-
Mrs KS WILSON	203 636	-
Mrs LV SETLHAKE	203 636	-
Ms R MOLEHE	203 636	-
Ms VR MORAKILE	203 636	-

Naledi Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
43. Related parties (continued)	8 139 001	8 843 682

44. Risk management

Financial risk management

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

Liquidity risk

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

Liquidity risk is mitigated by approaching cash funded budgets at all times to ensure that commitments can be settled once due over the long term. The municipality also monitors its cash balances on a daily basis to ensure cash resources are available to settle short term obligation.

There were no changes to the exposure to liquidity risk and how the risk is managed during the period under review.

Naledi Local Municipality

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Figures in Rand 2022 2021

44. Risk management (continued)

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

ERF5673 portion of ERF 506 Vryburg with a fair value of R26 430 000 was pledged as security for DBSA loan.

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

Financial instrument		
Receivables from exchange transactions	167 757 204	88 556 797
Receivables from non exchange transactions	53 020 742	45 774 427
Cash and Cash Equivalents	13 625 922	50 656 475

There were no changes in the approach on how credit risk is managed during the period under review.

Cash and Cash Equivalents

Deposits of the municipality are only held by reputable banks. There are no restrictions on the deposits held, no cash was pledged as security.

Credit risk is further managed and guided by the Cash Management and Investment Policy.

Receivables from Exchange Transactions

Receivables comprise of a large number of local users. On-going credit evaluations are performed on the financial condition of these receivables. Credit risk pertaining to receivables are considered to be moderated due to the diversified nature of receivables and immaterial nature of individual balances. In the case of consumer debtors, the municipality effectively has the right to terminate services to consumers but in practice this is difficult to apply.

For accounts that are in arrears the municipality encourages settlement by "levying of penalty charges" demand for payment and as a last resort "handing over to lawyers", whichever procedure is applicable in terms of Council's credit control and debt collection policy.

Receivables are disclosed after taking into account the provision for impairment raised against each class of receivable. Receivables are payable within 30 days. All receivables outstanding for more than 30 days are considered to be past due.

The following receivables are past due but not impaired:

Service		
Electricity	9 968 480	10 578 401
Water	10 586 308	8 088 979
Waste Water Management	9 331 227	6 346 576
Waste Management	6 778 414	5 682 880
Property Rentals and Sundry	487 378	441 389
	37 151 807	31 138 225
1 Month Past Due	14 695 622	12 712 037
2 Months Past Due	8 705 365	9 281 910
3 Months Past Due	13 750 820	9 144 278

Naledi Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
44. Risk management (continued)		
	37 151 807	31 138 225

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.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the entity to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to amortised cost interest rate risk. The municipality's policy is to maintain approximately 60% of its borrowings in fixed rate instruments. During 2022 and 2021, the municipality's borrowings at variable rate were denominated in the Rand value.

The following balances are exposed to interest rate fluctuations:

Interest Rate Risk	2022	2021
Cash and Cash Equivalents	13 625 922	50 656 475
Long-term borrowing (including current portion)	(7 141 491)	(12 330 905)
	6 484 431	38 325 570

45. Going concern

We draw attention to the fact that at 30 June 2022, the municipality had an accumulated deficit of R (136 620 244) (2021: R(92 408 827)). -

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

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2022

2021

45. Going concern (continued)

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that the municipality will continue to receive grants from National and Provincial Governments as well as continue to levy rates and charge for services provided to consumers. The proceeds are presumed to be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The following indicators have a negative outlook on the going concern of the municipality:

The municipality had a deficit during the year under review. The municipality's current assets to current liability ratio causes a material uncertainty on the municipality's going concern. Non-compliance (30 days) - The municipality is currently not paying all their creditors within the accepted 30 days. This also resulted in fruitless and wasteful expenditure due to interest on overdue creditors account.

Contingent Liabilities – Naledi Local Municipality has disclosed Contingent Liabilities in the 2021/2022 Financial year. Should the outcome of the cases be not be favourable to the Municipality this could result in significant Financial Losses to the entity thus casting significant doubt on the entities ability to continue as a going concern.

Despite the above negative indicators, the municipality is a going concern because of the following:

It is a state entity set up by the Constitution of the Republic of South Africa to provide basic services to the community and is also funded by the state for that purpose. Failure to provide these services will prompt National Government intervention to ensure it stays functional and able to deliver basic services and consequently compliance with the Constitution. The municipality is adequately funded by National Government to continue its operations.

Were applicable the municipality may invoke its power to levy additional rates or taxes to enable the municipality to be considered as a going concern even though the municipality will be operational for extended periods with negative net assets.

The municipality is implementing optimal revenue enhancement strategy and credit control and debt collection policy along with cost containment policy to improve liquidity. In line with debt collection management has proposed incentive scheme to encourage consumer payment of services.

Management has developed the UIF and W reduction strategy and reviewing the current financial plan for adoption by council.

National Treasury assisted the Municipality by providing additional funding to manage the effects of Covid-19.

46. Fruitless and wasteful expenditure

Opening balance	208 993 390	172 260 118
Correction of prior period error	-	18 742 967
Opening balance as restated	208 993 390	191 003 085
Add: Current year	32 756 464	17 990 305
Closing balance	241 749 854	208 993 390

The fruitless and wasteful expenditure mainly relates to interest charged by Eskom on electricity account arrears, interest on DBSA loan and interest on creditors accounts.

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

46. Fruitless and wasteful expenditure (continued)

Expenditure identified in the current year include those listed below:

Eskom bulk accounts	30 452 284	13 537 338
Eskom small accounts	120 477	-
AGSA	810 587	810 079
Telkom	596 563	48 654
SARS	-	514 419
DBSA	122 890	871 233
Other creditors	321 670	2 208 582
	32 424 471	17 990 305

47. Irregular expenditure

Opening balance	239 454 664	231 950 353
Correction of error	14 920 374	6 074 177
Opening balance as restated	254 375 038	238 024 530
Add: Irregular Expenditure - current	33 375 195	16 350 508
Closing balance	287 750 233	254 375 038

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

	Disciplinary steps taken/criminal proceedings	
Payment made without following correct SCM processes	-	7 504 311

48. Financial instruments disclosure

Categories of financial instruments

2022

Financial assets

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

	2022	2021
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48. Financial instruments disclosure (continued)

	At amortised cost	Total
Receivables from exchange transactions	167 757 205	167 757 205
Receivables from non-exchange transactions	53 020 742	53 020 742
Cash and cash equivalents	13 625 922	13 625 922
	234 403 869	234 403 869

Financial liabilities

	At amortised cost	Total
Other financial liabilities	7 141 491	7 141 491
VAT Payable	30 229 873	30 229 873
Payables from exchange transactions	868 258 175	868 258 175
Consumer deposits	6 002 507	6 002 507
Unspent grants	4 425 539	4 425 539
	916 057 585	916 057 585

2021

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	88 556 797	88 556 797
Receivables from non-exchange transactions	45 774 427	45 774 427
Cash and cash equivalents	50 656 475	50 656 475
	184 987 699	184 987 699

Financial liabilities

	At amortised cost	Total
Other financial liabilities	12 330 905	12 330 905
Payables from exchange transactions	782 708 352	782 708 352
Consumer deposits	6 507 403	6 507 403
Unspent grant	14 039 451	14 039 451
	815 586 111	815 586 111

49. 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.

Deviations

Emergency
Sole supplier
Impractical or impossible to follow procurement process

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
50. Unauthorised expenditure		
Opening balance as previously reported	353 524 553	343 394 704
Opening balance as restated	353 524 553	343 394 704
Add: Current year unauthorised expenditure	60 073 333	10 129 849
Closing balance	413 597 886	353 524 553

Unauthorised expenditure: Reconciliation of operating and capital expenditure versus actual

Vote Description- Expenditure by vote	Amount as per adjusted budget	Actual spent as per GL	Variances	Unauthorised expenditure
Vote 1- Executive and Council	14 604 684	13 285 137	1 319 547	-
Vote 2 - MUNICIPAL MANAGER	20 712 886	27 296 503	(6 583 617)	(6 583 617)
Vote 3 - ADMINISTRATION & CORPORATE SERVICES	47 162 908	35 917 737	11 245 171	-
Vote 4 - FINANCIAL SERVICES	70 022 935	50 352 592	19 670 343	-
Vote 5 - COMMUNITY DEVELOPMENT SERVICES	67 030 370	99 753 154	(2 031 407)	(2 031 407)
Vote 6 - COMMUNITY DEVELOPMENT SERVICES	30 691 377	-	-	-
Vote 7 - TECHNICAL SERVICES	232 596 499	227 457 223	5 139 276	-
Vote 8 - ECONOMIC DEVELOPMENT	2 779 044	4 293 869	(1 514 825)	(1 514 825)
	485 600 703	458 356 215	27 244 488	(10 129 849)

Vote description- Capital expenditure	Amounts as per adjusted budget	Actual as per GL	Variances	Unauthorised expenditure
Vote 3 - ADMINISTRATION & CORPORATE SERVICES	730 000	-	730 000	-
Vote 5 - COMMUNITY DEVELOPMENT SERVICES	9 640 225	1 021 386	11 118 839	-
Vote 6 - COMMUNITY DEVELOPMENT SERVICES	2 500 000	-	-	-
Vote 7 - TECHNICAL SERVICES	17 121 048	13 813 449	3 307 599	-
	29 991 273	14 834 835	15 156 438	-

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

51. Prior period errors

Statement of Financial Position

Figures in Rand	Note(s)	Previously reported	Adjustment	Re-classification	Restated	Re
Assets						
Current Assets						
Cash and cash equivalents	3	50 656 475	1	-	50 656 476	
Inventories	4	1 222 329	1 965	-	1 224 294	[7]
VAT receivable		32 879 501	(2 779 629)	-	30 099 872	[8]
Receivables from non-exchange transactions	6	34 397 196	16 946 324	-	51 343 520	[9]
Receivables from exchange transactions	7	88 556 797	(25 613 821)	-	62 942 976	
		207 712 298	(11 445 160)	-	196 267 138	
Non-Current Assets						
Biological assets	8	1 835 939	1 756 361	-	3 592 300	[10]
Investment property	9	57 637 000	-	-	57 637 000	
Property, plant and equipment	10	542 831 045	9 655 234	-	552 486 279	
Heritage assets	11	1 358 501	-	-	1 358 501	
		603 662 485	11 411 595	-	615 074 080	
Total Assets		811 374 783	(33 565)	-	811 341 218	
Liabilities						
Current Liabilities						
Other financial liabilities	12	12 330 905	-	-	12 330 905	
Payables from exchange transactions	13	938 657 920	(212 383 963)	-	726 273 957	[4]
Consumer deposits	14	5 082 675	1 424 728	-	6 507 403	[3]
Employee benefit obligation	15	3 312 000	-	-	3 312 000	
Unspent conditional grants	16	14 039 451	(1)	-	14 039 450	
		973 422 951	(210 959 236)	-	762 463 715	
Non-Current Liabilities						
Employee benefit obligation	15	52 713 000	-	-	52 713 000	
Provisions	17	32 394 944	-	-	32 394 944	
		85 107 944	-	-	85 107 944	
Total Liabilities		1 058 530 895	(210 959 236)	-	847 571 659	
Net Assets		(247 156 112)	210 925 671	-	(36 230 441)	
Reserves						
Revaluation reserve	18	2 470 085	-	-	2 470 085	
Accumulated surplus / (deficit)		(249 626 197)	210 925 671	-	(38 700 526)	[12]
Total Net Assets		(247 156 112)	210 925 671	-	(36 230 441)	

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

51. Prior period errors (continued)

Statement of Financial Performance

Figures in Rand	Note(s)	Previously reported	Adjustment	Re-classification	Restated	Re
Revenue						
Revenue from exchange transactions						
Service charges	19	229 459 575	(10 443 132)	-	219 016 443	[1]
Rental of facilities and equipment	20	165 652	-	-	165 652	
Interest income		30 545 597	(9 303 669)	-	21 241 928	[11]
Licences and permits		6 854 252	-	-	6 854 252	
Other income	23	2 690 195	-	-	2 690 195	
Total revenue from exchange transactions		269 715 271	(19 746 801)	-	249 968 470	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	24	58 014 617	14 259 453	-	72 274 070	[2]
Interest income		6 126 856	(4 297 717)	-	1 829 139	
Transfer revenue						
Government grants & subsidies	26	87 884 141	-	-	87 884 141	
Fines, Penalties and Forfeits		4 308 000	(761 180)	-	3 546 820	
Total revenue from non-exchange transactions		156 333 614	9 200 556	-	165 534 170	
Total revenue	28	426 048 885	(10 546 245)	-	415 502 640	
Expenditure						
Employee related costs	29	(192 158 174)	-	-	(192 158 174)	
Remuneration of councillors	30	(8 843 681)	-	-	(8 843 681)	
Depreciation and amortisation	31	(39 607 579)	(1 839 533)	-	(41 447 112)	
Finance costs	32	(25 085 567)	(44 005)	-	(25 129 572)	
Debt Impairment	33	(42 408 318)	(22 285 227)	-	(64 693 545)	
Bulk purchases	34	(99 441 379)	-	-	(99 441 379)	
Contracted services	35	(25 194 379)	-	-	(25 194 379)	
General Expenses	36	(22 517 252)	(977 020)	-	(23 494 272)	
Total expenditure		(455 256 329)	(25 145 785)	-	(480 402 114)	
Operating deficit		(29 207 444)	(35 692 030)	-	(64 899 474)	
Fair value adjustments	37	741 552	-	-	741 552	
Actuarial gains/(losses)	15	(3 099 887)	-	-	(3 099 887)	
		(2 358 335)	-	-	(2 358 335)	
Deficit for the year		(31 565 779)	(35 692 030)	-	(67 257 809)	
Fruitless and wasteful expenditure		190 250 423	18 742 966	-	208 993 389	[5]
Commitments		29 919 196	(16 675 533)	-	13 243 663	[6]
Deviations		18 339 292	(10 935 136)	-	7 404 156	
		280 870 207	(8 867 703)	-	272 002 504	

* See Note 51

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Position as at 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
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51. Prior period errors (continued)

Reasons for restatement

1. Service charges

Prepaid electricity was overstated as revenue was accounted for inclusive of VAT resulting in overstatement of VAT now corrected. The adjustment resulted in decrease in service charges, decrease in vat receivable and an increase in accumulated deficit.

2. Property rates

State owned properties was understated in prior year due to monthly tariff being applied as an annual tariff now corrected. This resulted in an increase in property rates, increase in Trade receivables and decrease in accumulated deficit.

Agricultural properties was overstated in prior year due to annual tariff being applied monthly now corrected. This resulted in a decrease in property rates, decrease in Trade receivables and increase in accumulated deficit.

3. Consumer deposits

These were understated in the prior year now corrected.

4. Payables from exchange transactions

Unallocated deposits were understated by R1 849 567 now corrected. This resulted in increase in accumulated surplus with the same amount
Trade payables

5. Fruitless and wasteful expenditure was adjusted as a result of some prior year invoices not being previously captured.

6. Commitments

Commitments were restated as a result of projects that were erroneously included on the commitments schedule in the prior year.

7. Inventory

Inventory was adjusted as a result of land held for sale that was previously not accounted for. The land mainly relates to RDP houses.

8. VAT

Prepaid electricity was overstated as revenue was accounted for inclusive of VAT resulting in overstatement of VAT. Subsequently corrected. The adjustment resulted in decrease in service charges, decrease in vat receivable and an increase in accumulated deficit.

9. Receivables from non-exchange transactions

State owned properties was understated in prior year due to monthly tariff being applied as an annual tariff now corrected. This resulted in an increase in property rates and an increase in trade receivables.

Agricultural properties was overstated in prior year due to annual tariff being applied monthly now corrected. This resulted in a decrease in property rates and a decrease in trade receivables.

10. Biological assets

Biological assets were restated as a result of reversal of depreciation and accumulated depreciation.

11. Interest income

Interest income was overstated due to incorrect interest rate that was previously used which overstated interest income.

12. Accumulated surplus/ (deficit)

This was restated as a result of the net effect of all restatements on the financial statements.

52. Budget differences

Material differences between budget and actual amounts

* See Note 51

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Position as at 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
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52. Budget differences (continued)

A difference of more than 10% on budget vs actual amounts is regarded as material by the municipality

1. Service Charges - Service charges performed below the budget due to billing errors corrected on the financial system.
2. Rental facilities and equipment - .
3. Interest income - Interest income from service charges overstated due to incorrect interest rate that was previously used which overstated interest income.
4. Licenses and permits - Licenses and permits has over performed due to an increase in license and permit applications which the municipality has minimal to no control over.
5. Fair value adjustments - .
6. Other Income - Other income has over performed due to an increase in revenue lines such as clearance certificates, building plan approvals and sub-division charges which the municipality has minimal to no control over.
7. Property rates - Property rates performed above the budget due to correction of errors between the valuation roll and financial system.
8. Interest Income (non-exchange): - All interest income was budgeted as part of exchange interest income.

* See Note 51

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Position as at 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
52. Budget differences (continued)			
9. Government Grants and Subsidies - Budget exceeded due to additional MIG allocation of R16m.			
10. Fines, Penalties and Forfeits - Fines and penalties were projected based on prior period performance, the municipality has minimal to no control over number of fines issued.			
11. Employee Costs - Over expenditure due to filling of critical vacant posts which were not funded.			
12. Remuneration of councillors - The municipality had overbudgeted for remuneration of councillors.			
13. Depreciation and amortisation -			
14. Finance costs - Finance charges are as a result of interest on overdue accounts which the municipality is unable to settle within 30 days as prescribed by the MFMA due to cash flow challenges.			
15. Debt impairment -.			
16. Bulk purchases - Purchases of electricity from Eskom increased compared to the anticipated purchases. This also is attributable to the increase in electricity revenue.			
17. Contracted services - .			
18. Transfers and subsidies - There were no transfers and subsidies incurred by the municipality.			
19. General expenses -			
19b- Actuarial gains/losses -These were not budgeted for hence the variance.			
20. Inventories - The reduction is mainly as a result of cost containment measures implemented thereby resulting in less inventory being bought than anticipated.			
21. Receivables from exchange transaction -The Receivables from exchange transactions are more than budgeted amounts as a result of non payment from customers than anticipated.			
22. Receivables from non-exchange transactions - The Receivables from non exchange transactions are more than budgeted amounts as a result of non payment from customers than anticipated.			
23. Cash and cash equivalents - Cash and cash equivalents is slightly lower than anticipated due to payment commitments made during the year.			
24. Biological assets - These were not budgeted for hence the variance.			
24b. Investment property - These were not budgeted for hence the variance.			
25. Property, plant and equipment- .			
26. Heritage assets - These were not budgeted for hence the variance.			
28. Other financial liabilities -The municipality managed to pay more than anticipated to reduce the loan balance hence the variance.			
29. VAT Payables - These were not budgeted for hence the variance.			
30. Payables from exchange transactions - The municipality was not paying its suppliers resulting in an increase in Payables.			
31. Employee benefit obligation (current) - These were not budget for.			
32. Unspent conditional grants and receipts -The municipality had anticipated to spend all of its grants at year end, however the full amount was not spent.			

* See Note 51

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Position as at 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
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52. Budget differences (continued)

33. Provisions - Provisions were overbudgeted for hence the variance. Provisions were accounted for as non-current on the actual amounts as the municipality does not anticipate to rehabilitate in the next year.

34. Consumer deposits - The municipality had more customer deposits than anticipated. There were more applicants than budgeted resulting in material variance.

35. Employee benefit obligation (non-current) -These were not budget for.

36. Accumulated surplus - the variance is as result of the net effect of all Statement of Financial Position amount.

53. Events after the reporting date

There were no events after reporting date.

54. Segment information

General information

Identification of segments

The segments were organised based on the type and nature of service delivered by the Municipality. These services are delivered in various municipal departments, which for reporting purposes are allocated to a standardised functional area (guided by mSCOA regulations). Budgets are prepared for each functional area and the budget versus actual amounts are reported on a monthly basis. Information reported about these segments 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.

* See Note 51

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Position as at 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
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54. Segment information (continued)

Types of goods and/or services by segment

The Municipality has several departments/functional areas and accordingly the segments were aggregated for reporting purposes as set out below:

Reportable segment	Goods and/or services
Municipal governance and administration	This segment consists of services such as executive services, support services to the executive and finance & administration services.
Finance and administration Services	Provision of financial and administrative services to other segments of the municipality.
Administration & Corporate Services	The department is responsible for the general operations of the Municipality including administration, human resources and document management.
Community Development Services	Provision of public safety, an acceptable standard of Social Services, Emergency Services, Environmental and Health Services, Community Safety and Road Traffic Management.
Economic Development	Provision of planning and development including policy and procedures. Co-ordination work relating to the preparation of the Annual Development Programme and its review.
Technical Services	This segment consists of the following infrastructure services delivered to the community. -- Energy Sources:- This segment consists of all services for energy supply to the community. -- Waste Management:- This segment consists of all services for the management of solid waste in the municipal area. -- Waste Water Management:- Inter-business unit services are not valued and are deemed to have been supplied for no consideration, and are therefore not eliminated. However, the quality of services provided internally is monitored as part of the non-financial service performance information. This segment consists of all services for the management of waste water, including sewage, in the municipal area. -- Water Management:- This segment consists of all services for water supply to the community.
Executive & Council	Provision of overall governance to other segments of the municipality.

* See Note 51

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

54. Segment information (continued)

Segment surplus or deficit

2021

	Municipal governance and administration	Finance and administration Services	Administration & Corporate Services	Community Development Services	Economic Development	Technical Services	Executive & Council	Total
Revenue								
Revenue from exchange transactions	-	-	-	-	-	-	-	-
Service charges	-	-	-	24 606 539	-	204 853 036	-	229 459 575
Rental of facilities and equipment	-	-	-	165 652	-	-	-	165 652
Interest income	-	5 585 995	-	4 887 089	-	20 072 513	-	30 545 597
Licences and permits	-	-	-	6 854 252	-	-	-	6 854 252
Fair Value adjustment	-	1 361 275	-	-	-	-	(619 723)	741 552
Other income	-	270 948	-	2 021 448	-	397 799	-	2 690 195
Revenue from non-exchange transactions	-	-	-	-	-	-	-	-
Property Rates	-	58 014 617	-	-	-	-	-	58 014 617
Interest Income	-	1 120 442	-	1 000 970	-	4 005 444	-	6 126 856
Government grants and subsidies	-	68 267 000	128 188	1 411 443	-	18 077 510	-	87 884 141
Fines, Penalties and Forfeits	-	-	-	4 308 000	-	-	-	4 308 000
Total segment revenue	-	134 620 277	128 188	45 255 393	-	247 406 302	(619 723)	426 790 437
Entity's revenue								426 790 437

* See Note 51

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

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Figures in Rand

	Municipal governance and administration	Finance and administration Services	Administration & Corporate Services	Community Development Services	Economic Development	Technical Services	Executive & Council	Total
54. Segment information (continued)								
Expenditure								
Employee related costs	(17 238 148)	(12 108 657)	(27 626 652)	(92 391 170)	(4 073 791)	(35 621 321)	(3 098 435)	(192 158 174)
Remuneration of councillors	-	-	-	-	-	-	(8 843 681)	(8 843 681)
Depreciation and amortisation	-	-	(1 549 538)	(4 034 157)	(153 528)	(33 870 356)	-	(39 607 579)
Finance costs	-	(25 085 568)	-	-	-	-	-	(25 085 568)
Debt Impairment	-	-	-	-	-	(42 408 318)	-	(42 408 318)
Bulk purchases	-	-	-	-	-	(99 441 379)	-	(99 441 379)
Contracted services	(10 058 355)	(3 435 519)	(117 213)	(1 706 149)	(66 550)	(9 758 821)	(51 769)	(25 194 376)
Actuarial losses	-	(3 099 887)	-	-	-	-	-	(3 099 887)
General Expenses	-	(6 622 960)	(6 624 334)	(1 621 678)	-	(6 357 028)	(1 291 252)	(22 517 252)
Total segment expenditure	(27 296 503)	(50 352 591)	(35 917 737)	(99 753 154)	(4 293 869)	(227 457 223)	(13 285 137)	(458 356 214)
Total segmental surplus/(deficit)								(31 565 779)

* See Note 51

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

54. Segment information (continued)

2022

Total

The Municipality has assessed that assets and liabilities associated with each segment is not used by management for decision making purposes, and neither is it being reported on. Assets and liabilities are utilised by management to assess key financial indicators for the Municipality as a whole. Accordingly, the assets and liabilities per segment is not required to be disclosed.

* See Note 51

