



Magareng Local Municipality  
Annual Financial Statements  
for the year ended June 30, 2022

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## General Information

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<b>Legal form of entity</b>	Municipality
<b>Nature of business and principal activities</b>	Magareng Municipality is a local municipality performing functions as set out in the Constitution, Act 105 of 1996
<b>Mayoral committee</b>	
Mayor	Ms N Mase
Councillors	B Mokomela (November 2021) (Ward 1) MF Mokitimi (November 2021) (Ward 2) CM Mere (November 2021) (Ward 3) LO Amose (November 2021) (Ward 4) BG Plata (November 2021) (Ward 5) LR Namelang (December 2020) (P.R Councillor EFF) KC Mekhoa (November 2021) (P.R Councillor EFF) L Valtyn (November 2021) (P.R Councillor PA) D Watson (November 2021) (P.R Councillor DA) TE Mokola (Ward 1) KG Freddie (Ward 2) DJ Tshekedi (Ward 3) AK Zalisa (Ward 4) WJ Potgieter (Ward 5) J Louw (P.R. Councillor DA) TM Cross (P.R. Councillor EFF) P Namelang (P.R Councillor EFF)
<b>Grading of local authority</b>	Category B as defined by the Municipal Structures Act, Act no 117 of 1998
<b>Accounting Officer</b>	Mrs EM Moncho - Services ended 30 June 2022 Mr T Thage (Acting Municipal Manager) - Appointed 1 July 2022
<b>Chief Finance Officer (CFO)</b>	Ms MM Motswaledi
<b>Registered office</b>	Magrieta Prinsloo Street Warrenton 8530
<b>Business address</b>	Magrieta Prinsloo Street Warrenton 8530
<b>Postal address</b>	PO Box 10 Warrenton 8530
<b>Bankers</b>	ABSA Bank
<b>Auditors</b>	The Auditor-General of South Africa
<b>Attorneys</b>	Matthews and Partners State Attorney Frances Baard DM Legal and Compliance department

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## General Information

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### Members of Audit Committee

Mr T Mogoli (Chairperson from 26 March 2019)

Mr GR Botha

Mr T Mudamburi

# Magareng Local Municipality

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## General Information

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### Enabling Legislation

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

# Magareng Local Municipality

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

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

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

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

The annual financial statements set out on page 6, which have been prepared on the going concern basis, were approved by the accounting officer on August 31, 2022 and were signed on its behalf by:

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**Tumelo Thage**  
**Acting Municipal Manager**

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Officer's Report

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

### 1. Review of activities

#### Main business and operations

The municipality is engaged in providing municipal services and maintaining the best interest of the local community within the Magareng municipal area and operates principally in South Africa.

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

### 2. Going concern

We draw attention to the fact that at June 30, 2022, the municipality had an accumulated surplus (deficit) of R 122,870,218 and that the municipality's total liabilities exceed its assets by R122,870,218.

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

Furthermore, management has reviewed the municipality's cash flow forecast for the year ended 30 June 2021 and in light of this review and the current financial position, management is satisfied that the municipality has, or has access to, adequate resources to continue its operation existing for the foreseeable future.

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

For details of management's assumptions with respect to the applicability of the going concern assumption refer to note 62.

### 3. Subsequent events

Matters arising since the end of the financial year have been disclosed on note 53.

### 4. Accounting Officer's interest in contracts

No matters to report.

### 5. Accounting policies

The annual financial statements are prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP), including any directives and interpretations of such Standards issued by the Accounting Standards Board and in accordance with Section 122(3) of the Municipal Finance Management Act (Act No.56 of 2003).

### 6. Accounting Officer

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

Name	Nationality	Changes
Tumelo Thage	South African	Appointed 01 July 2022

### 7. Auditors

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

The annual financial statements set out on page 8, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2022 and were signed on its behalf by:

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**Tumelo Thage**  
**Acting Municipal Manager**

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# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Statement of Financial Position as at June 30, 2022

Figures in Rand	Note(s)	2022	2021 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	3	163,811	162,761
Receivables from non-exchange transactions	4	6,204,206	4,493,313
VAT receivable	5	30,911,030	29,256,689
Receivables from exchange transactions	6	7,594,410	9,672,908
Unpaid government grants	18	-	5,945,108
Cash and cash equivalents	7	241,514	6,674,175
		<b>45,114,971</b>	<b>56,204,954</b>
<b>Non-Current Assets</b>			
Investment property	8	23,831,200	23,831,200
Property, plant and equipment	9	352,230,271	346,161,242
Intangible assets	10	19,790	39,581
Heritage assets	11	370,999	370,999
Receivables from exchange transactions	12	5	5
Receivables from non-exchange transactions	13	1	1
		<b>376,452,266</b>	<b>370,403,028</b>
<b>Total Assets</b>		<b>421,567,237</b>	<b>426,607,982</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Payables from exchange transactions	14	261,082,129	241,417,425
Consumer deposits	15	1,034,517	1,002,568
Employee benefit obligation	16	6,726,028	7,106,298
Unspent conditional grants and receipts	18	5,202,452	6,706,458
		<b>274,045,126</b>	<b>256,232,749</b>
<b>Non-Current Liabilities</b>			
Employee benefit obligation	17	4,714,000	4,515,000
Provisions	19	19,937,894	15,736,964
		<b>24,651,894</b>	<b>20,251,964</b>
<b>Total Liabilities</b>		<b>298,697,020</b>	<b>276,484,713</b>
<b>Net Assets</b>		<b>122,870,217</b>	<b>150,123,269</b>
Accumulated surplus		122,870,218	150,123,269
<b>Total Net Assets</b>		<b>122,870,218</b>	<b>150,123,269</b>

\* See Note 64



# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Statement of Financial Performance

Figures in Rand	Note(s)	2022	2021 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	20	37,185,536	33,244,926
Interest earned - Exchange transactions	21	7,483,835	11,560,527
Agency services	22	93,314	158,716
Rental income		12,255	17,580
Operational Revenue	24	58,431	56,641
Sale of goods and rendering of services	23	917,122	394,304
Interest earned - external investments	25	94,730	178,876
<b>Total revenue from exchange transactions</b>		<b>45,845,223</b>	<b>45,611,570</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	26	11,674,126	11,553,982
Licences and Permits	28	240,823	195,246
Interest - Non-Exchange Transactions	27	1,466,801	2,770,245
<b>Transfer revenue</b>			
Government grants & subsidies	30	91,593,982	128,488,362
Public contributions and donations	54	326,348	649,039
Fines, Penalties and Forfeits		126,800	229,475
Contributed Property, plant and equipment	55	4,780,677	15,000
<b>Total revenue from non-exchange transactions</b>		<b>110,209,557</b>	<b>143,901,349</b>
<b>Total revenue</b>		<b>156,054,780</b>	<b>189,512,919</b>
<b>Expenditure</b>			
Employee related costs	31	(52,129,857)	(50,091,430)
Remuneration of councillors	32	(4,263,308)	(3,598,160)
Depreciation and amortisation	33	(25,973,812)	(32,060,468)
Finance costs	35	(5,447,254)	(4,318,526)
Debt Impairment	36	(35,390,970)	(36,857,296)
Bad debts written off		-	(139,926)
Bulk purchases	37	(33,828,407)	(27,936,591)
Contracted services	38	(7,640,139)	(4,375,611)
Unauthorised debit orders	39	(946,907)	(801,711)
Operational Cost	40	(9,122,994)	(10,560,271)
Inventory consumed	41	(8,160,058)	(5,191,306)
<b>Total expenditure</b>		<b>(182,903,706)</b>	<b>(175,931,296)</b>
<b>Operating (deficit) surplus</b>		<b>(26,848,926)</b>	<b>13,581,623</b>
Gains/(Loss) on disposal of fixed assets	29	(699,740)	(176,176)
Actuarial gains/(losses)	17	295,614	(703,464)
(Impairment loss)/Reversal of impairments	34	-	(1,663,395)
		<b>(404,126)</b>	<b>(2,543,035)</b>
<b>(Deficit) surplus for the year</b>		<b>(27,253,052)</b>	<b>11,038,588</b>

\* See Note 64

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## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	142,054,728	142,054,728
Adjustments		
Correction of errors - Refer to note 47	(2,970,048)	(2,970,048)
<b>Balance at July 1, 2020 as restated*</b>	<b>139,084,680</b>	<b>139,084,680</b>
Changes in net assets		
Surplus for the year as previously reported	7,695,684	7,695,684
Correction of errors	3,342,905	3,342,905
Total changes	11,038,589	11,038,589
<b>Restated* Balance at July 1, 2021</b>	<b>150,123,270</b>	<b>150,123,270</b>
Changes in net assets		
Surplus for the year	(27,253,052)	(27,253,052)
Total changes	(27,253,052)	(27,253,052)
<b>Balance at June 30, 2022</b>	<b>122,870,218</b>	<b>122,870,218</b>
Note(s)		

\* See Note 64

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Cash Flow Statement

Figures in Rand	Note(s)	2022	2021 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		14,210,425	2,755,809
Grants		91,936,060	122,253,082
Interest income		9,045,366	14,509,648
Levies/Fines		126,800	229,475
Other income		346,392	372,375
Taxation		(887,306)	2,134,538
		<u>114,777,737</u>	<u>142,254,927</u>
<b>Payments</b>			
Employee costs		(56,716,822)	(52,790,142)
Suppliers		(41,326,959)	(34,534,282)
Finance costs		-	-
		<u>(98,043,781)</u>	<u>(87,324,424)</u>
<b>Net cash flows from operating activities</b>	44	<u><b>16,733,956</b></u>	<u><b>54,930,503</b></u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	9	(23,352,109)	(49,055,664)
Proceeds from sale of property, plant and equipment	9	185,490	586,750
<b>Net cash flows from investing activities</b>		<u><b>(23,166,619)</b></u>	<u><b>(48,468,914)</b></u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(6,432,663)</b>	<b>6,461,589</b>
Cash and cash equivalents at the beginning of the year		6,674,175	212,594
<b>Cash and cash equivalents at the end of the year</b>	7	<u><b>241,512</b></u>	<u><b>6,674,183</b></u>

\* See Note 64

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Statement of Comparison of Budget and Actual Amounts at 31 January 2022

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance for the year ended 31 January 2022</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	53,112,505	-	<b>53,112,505</b>	37,185,536	<b>(15,926,969)</b>	Over budgeting for electricity services and decrease in bulk users.
Interest earned - outstanding debtors	5,919,626	-	<b>5,919,626</b>	7,483,835	<b>1,564,209</b>	Less payments received from debtors than budgeted.
Agency services	171,658	-	<b>171,658</b>	93,314	<b>(78,344)</b>	Functions outsourced to SAPO.
Rental of facilities and equipment	2,262,666	-	<b>2,262,666</b>	12,255	<b>(2,250,411)</b>	Facilities are dilapidated and not in a working conditions.
Operational revenue	-	-	-	58,431	<b>58,431</b>	Payroll commission not budgeted for.
Other revenue	1,227,333	-	<b>1,227,333</b>	917,122	<b>(310,211)</b>	Decrease in consumers for waste suction.
Interest earned - External Investments	299,134	-	<b>299,134</b>	94,730	<b>(204,404)</b>	Cashflow challenges.
<b>Total revenue from exchange transactions</b>	<b>62,992,922</b>	-	<b>62,992,922</b>	<b>45,845,223</b>	<b>(17,147,699)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	8,312,797	-	<b>8,312,797</b>	11,674,126	<b>3,361,329</b>	Rates under estimated during the budget
Licences and Permits (Non-exchange)	79,423	-	<b>79,423</b>	240,823	<b>161,400</b>	Licnces and permits under estimated during the budget.
Interest earned - outstanding debtors	-	-	-	1,466,801	<b>1,466,801</b>	Seperate presentation of non-exchange interest.
<b>Transfer revenue</b>						
Government grants & subsidies	85,348,000	17,885,000	<b>103,233,000</b>	91,593,982	<b>(11,639,018)</b>	Equitable share offsetting

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Statement of Comparison of Budget and Actual Amounts at 31 January 2022

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Public contributions and donations	-	-	-	326,348	<b>326,348</b>	1% audit payment by NT not budgeted.
Fines, Penalties and Forfeits	150,293	-	<b>150,293</b>	126,800	<b>(23,493)</b>	Immaterial.
Donated assets	-	-	-	4,780,677	<b>4,780,677</b>	Donated assets cannot be accurately budgeted for.
<b>Total revenue from non-exchange transactions</b>	<b>93,890,513</b>	<b>17,885,000</b>	<b>111,775,513</b>	<b>110,209,557</b>	<b>(1,565,956)</b>	
<b>Total revenue</b>	<b>156,883,435</b>	<b>17,885,000</b>	<b>174,768,435</b>	<b>156,054,780</b>	<b>(18,713,655)</b>	
<b>Expenditure</b>						
Employee related costs	(47,281,873)	(1,909,911)	<b>(49,191,784)</b>	(52,129,857)	<b>(2,938,073)</b>	Overspending on increased overtime; stand by and shift allowances.
Remuneration of councillors	(4,696,580)	-	<b>(4,696,580)</b>	(4,263,308)	<b>433,272</b>	Councillors upper limits were increased by 4,9%.
Depreciation and amortisation	(13,318,384)	(17,114,000)	<b>(30,432,384)</b>	(25,973,812)	<b>4,458,572</b>	Depreciation was estimated based on prior year actual figures.
Finance costs	-	-	-	(5,447,254)	<b>(5,447,254)</b>	Finance costs was not budgeted for.
Debt Impairment	(21,472,622)	(16,343,378)	<b>(37,816,000)</b>	(35,390,970)	<b>2,425,030</b>	Estimate considered reasonable.
Bulk purchases	(25,570,733)	2,620,000	<b>(22,950,733)</b>	(33,828,407)	<b>(10,877,674)</b>	Budgeted as per payment arrangement.
Contracted Services	(4,886,146)	(1,303,940)	<b>(6,190,086)</b>	(7,640,139)	<b>(1,450,053)</b>	Contract services under estimated during the budget.
Unauthorised debit orders	-	-	-	(946,907)	<b>(946,907)</b>	Not budgeted for.
General Expenses	(12,614,120)	(1,380,389)	<b>(13,994,509)</b>	(17,283,052)	<b>(3,288,543)</b>	Budgeted bulk water as per payment arrangement not invoices.
<b>Total expenditure</b>	<b>(129,840,458)</b>	<b>(35,431,618)</b>	<b>(165,272,076)</b>	<b>(182,903,706)</b>	<b>(17,631,630)</b>	
<b>Operating deficit</b>	<b>27,042,977</b>	<b>(17,546,618)</b>	<b>9,496,359</b>	<b>(26,848,926)</b>	<b>(36,345,285)</b>	
Loss on disposal of assets and liabilities	-	-	-	(699,740)	<b>(699,740)</b>	Not budgeted for.
Actuarial gains/losses	-	-	-	295,614	<b>295,614</b>	Not budgeted for.

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Statement of Comparison of Budget and Actual Amounts at 31 January 2022

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
	-	-	-	(404,126)	(404,126)	
<b>Deficit before taxation</b>	<b>27,042,977</b>	<b>(17,546,618)</b>	<b>9,496,359</b>	<b>(27,253,052)</b>	<b>(36,749,411)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>27,042,977</b>	<b>(17,546,618)</b>	<b>9,496,359</b>	<b>(27,253,052)</b>	<b>(36,749,411)</b>	
<b>Reconciliation</b>						

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Statement of Comparison of Budget and Actual Amounts at 31 January 2022

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Position at 31 January 2022</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	167,483	-	<b>167,483</b>	163,811	<b>(3,672)</b>	Financial position budgeting not in place.
Receivables from non-exchange transactions	48,662,052	2,823,936	<b>51,485,988</b>	6,204,206	<b>(45,281,782)</b>	Financial position budgeting not in place.
VAT receivable	-	-	-	30,911,030	<b>30,911,030</b>	Financial position budgeting not in place.
Consumer debtors	9,010,050	13,472,222	<b>22,482,272</b>	7,594,410	<b>(14,887,862)</b>	Financial position budgeting not in place.
Cash and cash equivalents	(217,825,049)	27,537,171	<b>(190,287,878)</b>	241,514	<b>190,529,392</b>	Financial position budgeting not in place.
	<b>(159,985,464)</b>	<b>43,833,329</b>	<b>(116,152,135)</b>	<b>45,114,971</b>	<b>161,267,106</b>	
<b>Non-Current Assets</b>						
Investment property	23,831,200	-	<b>23,831,200</b>	23,831,200	-	Financial position budgeting not in place.
Property, plant and equipment	321,401,142	(4,270,704)	<b>317,130,438</b>	352,230,271	<b>35,099,833</b>	Financial position budgeting not in place.
Intangible assets	79,162	-	<b>79,162</b>	19,790	<b>(59,372)</b>	Financial position budgeting not in place.
Heritage assets	370,999	-	<b>370,999</b>	370,999	-	Financial position budgeting not in place.
Receivables from exchange transactions	-	-	-	5	<b>5</b>	
Receivables from non-exchange transactions	-	-	-	1	<b>1</b>	
Long-term receivables	833	-	<b>833</b>	-	<b>(833)</b>	Financial position budgeting not in place.
	<b>345,683,336</b>	<b>(4,270,704)</b>	<b>341,412,632</b>	<b>376,452,266</b>	<b>35,039,634</b>	
<b>Total Assets</b>	<b>185,697,872</b>	<b>39,562,625</b>	<b>225,260,497</b>	<b>421,567,237</b>	<b>196,306,740</b>	

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Statement of Comparison of Budget and Actual Amounts at 31 January 2022

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Payables from exchange transactions	155,690,861	(64,505,070)	<b>91,185,791</b>	261,082,129	<b>169,896,338</b>	Financial position budgeting not in place.
Consumer deposits	1,230,556	23,753	<b>1,254,309</b>	1,034,517	<b>(219,792)</b>	Financial position budgeting not in place.
Employee benefit obligation	6,441,958	-	<b>6,441,958</b>	6,726,028	<b>284,070</b>	Financial position budgeting not in place.
Unspent conditional grants and receipts	-	-	-	5,202,452	<b>5,202,452</b>	Financial position budgeting not in place.
	<b>163,363,375</b>	<b>(64,481,317)</b>	<b>98,882,058</b>	<b>274,045,126</b>	<b>175,163,068</b>	
<b>Non-Current Liabilities</b>						
Employee benefit obligation	-	-	-	4,714,000	<b>4,714,000</b>	Financial position budgeting not in place.
Provisions	3,104,520	-	<b>3,104,520</b>	19,937,894	<b>16,833,374</b>	Financial position budgeting not in place.
	<b>3,104,520</b>	-	<b>3,104,520</b>	<b>24,651,894</b>	<b>21,547,374</b>	
<b>Total Liabilities</b>	<b>166,467,895</b>	<b>(64,481,317)</b>	<b>101,986,578</b>	<b>298,697,020</b>	<b>196,710,442</b>	
<b>Net Assets</b>	<b>19,229,977</b>	<b>104,043,942</b>	<b>123,273,919</b>	<b>122,870,217</b>	<b>(403,702)</b>	
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	19,229,977	104,043,942	<b>123,273,919</b>	122,870,217	<b>(403,702)</b>	Financial position budgeting not in place.



# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Statement of Comparison of Budget and Actual Amounts at 31 January 2022

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Cash Flow Statement for the year ended 31 January 2022</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Sale of goods and services	23,397,243	67,800,331	<b>91,197,574</b>	14,210,425	<b>(76,987,149)</b>	Cashflow budgeting not in place.
Government Grants	80,048,000	24,325,000	<b>104,373,000</b>	91,936,060	<b>(12,436,940)</b>	Cashflow budgeting not in place.
Interest income	299,134	-	<b>299,134</b>	9,045,366	<b>8,746,232</b>	Cashflow budgeting not in place.
Levies/Fines	-	-	-	126,800	<b>126,800</b>	Cashflow budgeting not in place.
Other income	-	-	-	346,392	<b>346,392</b>	Cashflow budgeting not in place.
Taxation	-	-	-	(887,306)	<b>(887,306)</b>	Cashflow budgeting not in place.
	<b>103,744,377</b>	<b>92,125,331</b>	<b>195,869,708</b>	<b>114,777,737</b>	<b>(81,091,971)</b>	
<b>Payments</b>						
Employees	-	-	-	(56,716,822)	<b>(56,716,822)</b>	Cashflow budgeting not in place.
Suppliers	(105,039,748)	(78,827,473)	<b>(183,867,221)</b>	(41,326,959)	<b>142,540,262</b>	Cashflow budgeting not in place.
	<b>(105,039,748)</b>	<b>(78,827,473)</b>	<b>(183,867,221)</b>	<b>(98,043,781)</b>	<b>85,823,440</b>	
<b>Net cash flows from operating activities</b>	<b>(1,295,371)</b>	<b>13,297,858</b>	<b>12,002,487</b>	<b>16,733,956</b>	<b>4,731,469</b>	
<b>Cash flows from investing activities</b>						
Purchase of capital assets	(29,741,000)	(10,945,000)	<b>(40,686,000)</b>	(23,352,109)	<b>17,333,891</b>	Cashflow budgeting not in place.
Proceeds from sale of property, plant and equipment	-	-	-	185,490	<b>185,490</b>	Cashflow budgeting not in place.
Movement in long term receivables	833	(833)	-	-	-	Cashflow budgeting not in place.
<b>Net cash flows from investing activities</b>	<b>(29,740,167)</b>	<b>(10,945,833)</b>	<b>(40,686,000)</b>	<b>(23,166,619)</b>	<b>17,519,381</b>	
<b>Cash flows from financing activities</b>						
Increase/(Decrease) in Consumer Deposits	40,768	(64,521)	<b>(23,753)</b>	-	<b>23,753</b>	Cashflow budgeting not in place.

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Statement of Comparison of Budget and Actual Amounts at 31 January 2022

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Net increase/(decrease) in cash and cash equivalents	(31,035,538)	2,352,025	<b>(28,683,513)</b>	(6,432,663)	<b>22,250,850</b>	Cashflow budgeting not in place.
Cash and cash equivalents at the beginning of the year	576,949	-	<b>576,949</b>	6,674,175	<b>6,097,226</b>	Cashflow budgeting not in place.
<b>Cash and cash equivalents at the end of the year</b>	<b>(30,458,589)</b>	<b>2,352,025</b>	<b>(28,106,564)</b>	<b>241,512</b>	<b>28,348,076</b>	
<b>Reconciliation</b>						

# **Magareng Local Municipality**

Annual Financial Statements for the year ended June 30, 2022

The accounting policies on pages 19 to 54 and the notes on pages 55 to 118 form an integral part of the annual financial statements.

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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

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

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

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

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

These accounting policies are consistent with the previous period.

#### 1.1 Presentation currency

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

#### 1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months. Management considers key financial metrics and approved medium-term budgets to conclude that the going concern assumption used in the compiling of the Annual Financial Statements is appropriate. The recent COVID-19 pandemic and its effect on the Municipality's current and expected performance has been considered by management in the Going concern assumption.

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

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

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

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

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

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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

#### Fair value estimation

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

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

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

#### Impairment testing

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

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

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

#### Post-retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 17.

#### Allowance for doubtful debts

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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

#### Useful lives and residual values

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

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

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

#### 1.4 Investment property

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

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

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

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

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

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

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

#### Fair value

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

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

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

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

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

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.4 Investment property (continued)

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

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

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

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

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

#### Derecognition

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

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

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

### 1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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

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

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

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

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

Subsequent measurement

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

Depreciation and impairment

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

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

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

Each part of an item of property plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Components of asset that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

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

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

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Item	Depreciation method	Average useful life
Land	Straight-line	Indefinite
Buildings	Straight-line	10-30 years
Infrastructure	Straight-line	5 - 90 years
Community assets	Straight-line	7 - 25 years
Landfill sites	Straight-line	10 years
Other assets	Straight-line	5 -10 years

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

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

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

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



# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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

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

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

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

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

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

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

Commitments:

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

### 1.6 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

### 1.7 Intangible assets

An asset is identifiable if it either:

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

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.7 Intangible assets (continued)

An intangible asset is recognised when:

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

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

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

Intangible assets are initially recognised at cost.

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

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

Subsequent measurement

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

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

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

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Intangible assets are derecognised:

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

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.8 Heritage assets

#### Initial measurement

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

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

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

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

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

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

#### Subsequent measurement

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

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

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

#### Impairment

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

#### Transfers

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

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

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

#### Derecognition

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

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

#### Application of deemed cost - Directive 7

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.9 Financial instruments

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

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

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

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

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

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

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

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

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

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

A financial asset is:

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

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

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

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

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.

# Magareng Local Municipality

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## Accounting Policies

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### 1.9 Financial instruments (continued)

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
- 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.

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.9 Financial instruments (continued)

#### Classification

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

<b>Class</b>	<b>Category</b>
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables from exchange and non-exchange transactions	Financial asset measured at amortised cost
Other receivables from exchange transactions	Financial asset measured at amortised cost

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

<b>Class</b>	<b>Category</b>
Consumer deposits	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost

#### Initial recognition

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

The municipality recognises financial assets using trade date accounting.

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

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

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

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

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

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

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

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

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

#### Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.9 Financial instruments (continued)

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

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

Financial assets measured at cost:

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

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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

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

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

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

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.9 Financial instruments (continued)

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

#### Financial liabilities

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

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

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

#### Presentation

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

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

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

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

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

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

#### Cash and cash equivalents

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

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

### 1.10 Leases

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

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



# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.10 Leases (continued)

#### Operating leases - lessor

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

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

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

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

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

#### Operating leases - lessee

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

### 1.11 Inventories

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

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

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

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

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

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

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

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

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

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

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

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

### 1.12 Impairment of cash-generating assets

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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

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

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

#### Identification

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

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

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

(a) External sources of information:

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

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

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

(b) Internal sources of information:

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

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

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

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

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

#### Value in use

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

#### Discount rate

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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

#### Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

#### Cash-generating units

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

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

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

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

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

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

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

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

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

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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

#### Reversal of impairment loss

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

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

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

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

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

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

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

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

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

#### Redesignation

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

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

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

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

# Magareng Local Municipality

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## Accounting Policies

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

#### Identification

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

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

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

(a) External sources of information:

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

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

(b) Internal sources of information:

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

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

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

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

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

#### Value in use

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

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

#### Depreciated replacement cost approach

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

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

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

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

#### Reversal of an impairment loss

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

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

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

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

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

#### Redesignation

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

### 1.14 Employee benefits

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

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

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

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

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

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

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### 1.14 Employee benefits (continued)

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

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

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

#### Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

#### Post-employment benefits

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

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

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.14 Employee benefits (continued)

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

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

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

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

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



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Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.14 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.14 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.14 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

#### Other post retirement obligations

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

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

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.14 Employee benefits (continued)

#### Termination benefits

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

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

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

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

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

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

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

#### Provision for Staff Leave

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

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

Accumulated leave is vesting.

#### Staff Bonuses Accrued

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

### 1.15 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

### 1.16 Provisions and contingencies

Provisions are recognised when:

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

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.

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.16 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 surplus (deficit).

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

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 46.

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

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

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

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

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.16 Provisions and contingencies (continued)

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

### 1.17 Revenue from exchange transactions

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

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

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

#### Measurement

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

#### Sale of goods

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

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

#### Rendering of services

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

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

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

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

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.17 Revenue from exchange transactions (continued)

#### Interest, royalties and dividends

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

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

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

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

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

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

#### Pre-paid electricity

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

### 1.18 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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

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

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

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

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

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

#### Recognition

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

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

#### Measurement

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

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

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

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



# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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

#### Taxes

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

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

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

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

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

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

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

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

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

#### 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.

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.19 Investment income

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

### 1.20 Borrowing costs

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

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

### 1.21 Comparative figures

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

### 1.22 Unauthorised expenditure

Unauthorised expenditure means:

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

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

### 1.23 Fruitless and wasteful expenditure

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

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

### 1.24 Irregular expenditure

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

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

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.

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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

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

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

### 1.26 Conditional grants and receipts

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

### 1.27 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Materiality is determined as 1% of total expenditure. This materiality is from management's perspective and does not correlate with the auditor's materiality.

### 1.28 Budget information

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

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

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

The approved budget covers the fiscal period from 01/07/2021 to 30/06/2022.

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

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

### 1.29 Events after reporting date

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

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

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

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.30 Value Added Tax (VAT)

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

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

### 1.31 Accumulated surplus

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

### 1.32 Statutory receivables

#### Identification

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

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

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

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

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

#### Recognition

The municipality recognises statutory receivables as follows:

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

#### Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

#### Subsequent measurement

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

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

#### Accrued interest

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.32 Statutory receivables (continued)

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

#### Other charges

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

#### Impairment losses

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

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

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

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

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

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

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

#### Derecognition

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

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

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.33 Accounting by principals and agents

#### Identification

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

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

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

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

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

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

#### Binding arrangement

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

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

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

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

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

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

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

#### Recognition

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

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

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

### 1.34 Segment information

A segment is an activity of an entity:

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.34 Segment information (continued)

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

#### Measurement

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

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand

2022

2021

### 2. New standards and interpretations

#### 2.1 Standards, Amendments to standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2022 or later periods:

##### **Guideline: Guideline on the Application of Materiality to Financial Statements**

The objective of this guideline: The objective of this Guideline is to provide guidance that will assist entities to apply the concept of materiality when preparing financial statements in accordance with Standards of GRAP. The Guideline aims to assist entities in achieving the overall financial reporting objective. The Guideline outlines a process that may be considered by entities when applying materiality to the preparation of financial statements. The process was developed based on concepts outlined in Discussion Paper 9 on Materiality – Reducing Complexity and Improving Reporting, while also clarifying existing principles from the Conceptual Framework for General Purpose Financial Reporting and other relevant Standards of GRAP. The Guideline includes examples and case studies to illustrate how an entity may apply the principles in the Guideline, based on specific facts presented.

It covers: Definition and characteristics of materiality, Role of materiality in the financial statements, Identifying the users of financial statements and their information needs, Assessing whether information is material, Applying materiality in preparing the financial statements, and Appendixes with References to the Conceptual Framework for General Purpose Financial Reporting and the Standards of GRAP & References to pronouncements used in the Guideline.

The guideline is encouraged to be used by entities.

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

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

##### **GRAP 104 (amended): Financial Instruments**

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

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

The most significant changes to the Standard affect:

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

The effective date of the amendment is 1 April 2025.

The expected impact of the standard is a revised classification and measurement of financial assets in the municipality's annual financial statements].

##### **iGRAP 21: The Effect of Past Decisions on Materiality**



# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

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

#### Background

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

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

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

iGRAP 21 addresses the following two issues:

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

The effective date of this interpretation has been determined as April 1, 2023.

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

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

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

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

Summary of amendments are:

#### Materiality and aggregation

The amendments clarify that:

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

#### Statement of financial position and statement of financial performance

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

#### Notes structure

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

#### Disclosure of accounting policies

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

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

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

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

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

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

### 3. Inventories

Water - at cost	48,075	47,025
Unsold Properties Held for Resale	115,736	115,736
	<u>163,811</u>	<u>162,761</u>

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>4. Receivables from non-exchange transactions</b>		
Fines	31,309,412	31,245,352
Prepaid expense	563,170	500,000
Other receivables	444,647	182,058
Property rates	69,267,548	62,235,671
Less: Impairment	(95,380,570)	(89,669,767)
	<b>6,204,207</b>	<b>4,493,314</b>
Balance previously reported		8,589,128
Correction of error - refer to note 47		(4,095,814)
<b>Restated balance</b>		<b>4,493,314</b>
<p>None of the receivables from non-exchange transactions were pledged as security for any financial liability at year-end. Debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation.</p>		
<p>Ageing of Receivables from non-exchange transactions:</p>		
Non-current assets	1	1
Current assets	6,204,206	4,493,313
	<b>6,204,207</b>	<b>4,493,314</b>
<b>Property rates: Ageing</b>		
Current (0-30 days)	1,062,724	1,286,309
31 - 60 days	1,016,864	1,204,843
61 - 90 days	955,334	1,187,750
91 days	66,232,625	58,556,768
Less: Impairment	(64,165,550)	(58,490,505)
	<b>5,101,997</b>	<b>3,745,165</b>
<b>Reconciliation of provision for impairment of receivables from non-exchange transactions</b>		
Balance at the beginning of the year	(89,669,766)	(81,330,068)
Contribution (to) / from allowance property rates	(3,076,591)	(5,280,514)
Contribution (to) / from the interest property rates	(2,598,457)	(2,874,664)
Contribution (to) / from allowance traffic fines	(35,755)	(184,520)
	<b>(95,380,569)</b>	<b>(89,669,766)</b>

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

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

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Figures in Rand	2022	2021
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### 4. Receivables from non-exchange transactions (continued)

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

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

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

1 month past due	72,867	72,488
2+ months past due	4,952,977	3,567,568
	<u>5,025,844</u>	<u>3,640,056</u>

#### Receivables from non-exchange transactions impaired

As of 30 June 2022, receivables from non-exchange transactions of R96 842 713 (2021: R 90 599 692) were impaired and provided for.

The ageing of these amounts relating to Property rates are as follows:

0 to 3 months	2,817,444	4,550,045
3 to 6 months	3,110,984	3,187,789
Over 6 months	60,168,144	51,682,596
	<u>66,096,572</u>	<u>59,420,430</u>

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

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

Summary of Receivables from Non-Exchange transactions - 2022

	Gross Balance	Provision for Debt Impairment	Net Balance
Property rates	69,267,548	(64,165,550)	5,101,998
Fines	31,309,412	(31,215,019)	94,393
<b>Total</b>	<b>100,576,960</b>	<b>(95,380,569)</b>	<b>5,196,391</b>

Summary of Receivables from Non-Exchange transactions - 2021

	Gross Balance	Provision for Debt Impairment	Net Balance
Property rates	62,235,671	(58,490,505)	3,745,166
Fines	31,245,352	(31,179,264)	66,088
Other	4,777,872	-	4,777,872
<b>Total</b>	<b>98,258,895</b>	<b>(89,669,769)</b>	<b>8,589,126</b>

### 5. VAT receivable

VAT	30,911,030	29,256,689
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### 6. Receivables from exchange transactions

#### Gross balances

Electricity	44,933,353	46,314,019
Water	87,212,236	76,937,593
Sewerage	72,507,310	60,995,770
Refuse	57,156,297	54,447,562
Sundry	2,131,824	2,125,729
	<b>263,941,020</b>	<b>240,820,673</b>

#### Less: Allowance for impairment

Electricity	(38,789,712)	(38,107,649)
Water	(86,499,469)	(76,374,749)
Sewerage	(72,225,245)	(60,647,211)
Refuse	(56,913,082)	(54,275,426)
Sundry	(1,919,102)	(1,742,730)
	<b>(256,346,610)</b>	<b>(231,147,765)</b>

#### Net balance

Electricity	6,143,641	8,206,370
Water	712,767	562,844
Sewerage	282,065	348,559
Refuse	243,215	172,136
Sundry	212,722	382,999
	<b>7,594,410</b>	<b>9,672,908</b>

The ageing of exchange receivables by service type is as follows:

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>6. Receivables from exchange transactions (continued)</b>		
<b>Electricity</b>		
Current (0 -30 days)	1,533,861	1,257,216
31 - 60 days	494,767	1,136,069
61 - 90 days	329,110	844,753
91+ days	42,575,616	43,075,981
Less: Impairment	(38,789,713)	(38,107,649)
	<b>6,143,641</b>	<b>8,206,370</b>
<b>Water</b>		
Current (0 -30 days)	924,386	1,003,298
31 - 60 days	1,684,770	1,252,344
61 - 90 days	990,734	910,452
91+ days	83,612,347	73,771,499
Less: Impairment	(86,499,470)	(76,374,749)
	<b>712,767</b>	<b>562,844</b>
<b>Sewerage</b>		
Current (0 -30 days)	882,466	802,162
31 - 60 days	870,818	792,728
61 - 90 days	870,974	784,827
91+ days	69,883,052	58,616,054
Less: Impairment	(72,225,245)	(60,647,212)
	<b>282,065</b>	<b>348,559</b>
<b>Refuse</b>		
Current (0 -30 days)	647,500	639,623
31 - 60 days	634,589	624,306
61 - 90 days	631,620	617,874
91+ days	55,242,589	52,565,760
Less: Impairment	(56,913,083)	(54,275,427)
	<b>243,215</b>	<b>172,136</b>
<b>Sundry</b>		
Current (0 -30 days)	30,451	62,052
31 - 60 days	49,279	35,912
61 - 90 days	24,163	33,316
91+ days	2,027,932	1,994,449
Less: Impairment	(1,919,103)	(1,742,730)
	<b>212,722</b>	<b>382,999</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(231,147,765)	(204,373,889)
Contributions to allowance	(25,198,845)	(26,773,876)
	<b>(256,346,610)</b>	<b>(231,147,765)</b>

### Receivables from exchange transactions pledged as security

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

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Figures in Rand	2022	2021
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### 6. Receivables from exchange transactions (continued)

#### Credit quality of receivables from exchange transactions

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

#### Terms for receivables from exchange transactions

Receivables from exchange transactions are payable within 30 days. The credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of receivables from exchange transactions on initial recognition is not deemed necessary.

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

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

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

1 month past due	53,463	182,182
2+ months past due	4,901,066	9,309,256

#### Receivables from exchange transactions impaired

As of June 30, 2022, consumer debtors of - (2021: 249,153,229) were impaired and provided for.

The ageing of these loans is as follows:

0 to 3 months	9,634,402	13,267,871
3 to 6 months	10,974,570	8,914,750
Over 6 months	249,762,752	224,917,931

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	-	5
Bank balances	69,218	2,847,996
Short-term deposits	172,296	3,826,174
	<u>241,514</u>	<u>6,674,175</u>

### The municipality had the following bank accounts

Account description	Account number	Bank statement balances		Cash book balances	
		June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
ABSA Bank - Current Account	4096525022	69,218	2,847,995	69,218	2,847,995
Absa Bank - 7 day notice account	9351945669	152,956	3,770,318	152,956	3,770,318
Absa Bank - 7 day notice account	9355869912	966	1,004	966	1,004
Absa Bank - 7 day notice account	9355871747	18,375	54,851	18,375	54,851
<b>Total</b>		<u>241,515</u>	<u>6,674,168</u>	<u>241,515</u>	<u>6,674,168</u>



# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 8. Investment property

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	23,831,200	-	23,831,200	23,831,200	-	23,831,200

#### Reconciliation of investment property - 2022

	Opening balance	Fair value adjustments	Total
Investment property	23,831,200	-	23,831,200

#### Reconciliation of investment property - 2021

	Opening balance	Disposals	Total
Investment property	23,831,200	-	23,831,200
Fair value of investment properties		23,831,200	23,831,200

#### Pledged as security

There are no investment properties pledged as security.

There was no repairs and maintenance incurred on investment property during the year.

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

There are no restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal.

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

#### Maintenance of investment property

##### Deemed cost

Deemed cost was determined using fair value.

#### Investment Property (Land) is not controlled, but Magareng Municipality is the legal owner/custodian

All erven relating to housing projects where the title deed is still in the name of the municipality, but it is no longer controlled by the municipality are applicable.

Key judgements and assumptions applied:

- There is a binding arrangement with the Department of Housing to build houses on such land
- The municipality does not have the right to deny or restrict access even though the title deed is still in their name.

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

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# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

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### 9. 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	92,250,250	-	92,250,250	87,750,250	-	87,750,250
Buildings	8,700,698	(6,258,672)	2,442,026	10,183,076	(6,021,496)	4,161,580
Other assets	13,073,120	(10,229,910)	2,843,210	10,950,995	(9,669,117)	1,281,878
Infrastructure	338,905,345	(210,774,778)	128,130,567	337,725,269	(187,195,215)	150,530,054
Community	5,848,587	(1,314,078)	4,534,509	5,848,587	(1,091,141)	4,757,446
Landfill sites	13,404,033	(8,062,605)	5,341,428	11,058,562	(7,469,113)	3,589,449
Work in progress	119,474,802	(2,786,521)	116,688,281	96,877,106	(2,786,521)	94,090,585
<b>Total</b>	<b>591,656,835</b>	<b>(239,426,564)</b>	<b>352,230,271</b>	<b>560,393,845</b>	<b>(214,232,603)</b>	<b>346,161,242</b>

For more details on the prior period errors, please refer to note 47.

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

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

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

	Opening balance	Correction of error	Opening balance Restated	Additions	Disposals/ WIP Completed	Accumulated depreciation and Impairment Opening balance	Accumulated depreciation and impairment correction of error	Accumulated depreciation and Impairment Opening Balance Restated	Change in accounting estimate	Depreciation and Impairment	Disposals	Total
Land	87,750,250	-	87,750,250	4,500,000	-	-	-	-	-	-	-	92,250,250
Buildings	10,183,076	-	10,183,076	-	(1,482,378)	(6,021,494)	-	(6,021,494)	-	(872,799)	635,623	2,442,028
Electricity Infrastructure	65,786,748	-	65,786,748	-	-	(38,763,486)	-	(38,763,486)	-	(2,771,027)	-	24,252,235
Roads and Stormwater	119,267,479	-	119,267,479	-	-	(61,475,822)	-	(61,475,822)	-	(16,557,493)	-	41,234,164
Sewerage Infrastructure	65,388,021	-	65,388,021	-	-	(41,425,837)	-	(41,425,837)	-	(1,678,478)	-	22,283,706
Water Infrastructure	87,283,021	-	87,283,021	1,180,076	-	(45,530,070)	-	(45,530,070)	-	(2,572,098)	-	40,360,929
Water Infrastructure WIP	87,865,225	-	87,865,225	22,305,792	-	-	-	-	-	-	-	110,171,017
Sewerage Infrastructure WIP	2,265,652	-	2,265,652	-	-	(1,275,139)	-	(1,275,139)	-	-	-	990,513
Buildings	1,141,637	-	1,141,637	-	-	(529,328)	-	(529,328)	-	(86,466)	-	525,843
Land	2,757,236	-	2,757,236	-	-	-	-	-	-	-	-	2,757,236
Recreational Facilities	1,949,712	-	1,949,712	-	-	(561,813)	-	(561,813)	-	(136,472)	-	1,251,427
Recreational Facilities WIP	6,746,230	-	6,746,230	292,023	-	(1,511,382)	-	(1,511,382)	-	-	-	5,526,871
Landfill sites	11,058,561	-	11,058,561	-	-	(7,469,112)	-	(7,469,112)	2,345,471	(593,492)	-	5,341,428
Computer Equipment	1,089,952	-	1,089,952	512,351	(16,421)	(950,394)	-	(950,394)	-	(109,391)	15,278	541,375
Office Equipment	328,651	-	328,651	-	-	(265,024)	-	(265,024)	-	(19,243)	-	44,384
Furniture and Fittings	1,614,956	-	1,614,956	27,142	-	(1,319,718)	-	(1,319,718)	-	(97,485)	-	224,895
Transport Assets	6,515,702	-	6,515,702	1,309,864	(146,491)	(5,890,267)	-	(5,890,267)	-	(382,096)	109,159	1,515,871
Plant and Equipment	1,401,985	-	1,401,985	435,638	-	(1,243,714)	-	(1,243,714)	-	(77,014)	-	516,895
<b>560,394,094</b>	<b>-</b>	<b>560,394,094</b>	<b>30,562,886</b>	<b>(1,645,290)</b>	<b>(214,232,600)</b>	<b>-</b>	<b>(214,232,600)</b>	<b>2,345,471</b>	<b>(25,953,554)</b>	<b>760,060</b>	<b>352,231,067</b>	

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand

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

#### Reconciliation of property, plant and equipment - 2021

	Opening balance	Opening balance Restated	Additions	Disposals/ WIP Completed	Accumulated depreciation and Impairment Opening balance	Accumulated depreciation and Impairment Opening Balance Restated	Other changes, and movements	Depreciation and Impairment	Disposals	Total
Land	87,750,250	87,750,250	-	-	-	-	-	-	-	87,750,250
Buildings	10,183,076	10,183,076	-	-	(4,957,871)	(4,957,871)	-	(1,063,623)	-	4,161,582
Electricity Infrastructure	62,092,665	62,092,665	3,694,083	-	(35,617,937)	(35,617,937)	96,502	(3,242,051)	-	27,023,262
Roads and Stormwater	119,267,479	119,267,479	-	-	(40,033,899)	(40,033,899)	-	(21,441,923)	-	57,791,657
Sewerage Infrastructure	65,340,196	65,340,196	47,825	-	(39,596,999)	(39,596,999)	-	(1,828,838)	-	23,962,184
Water Infrastructure	64,159,184	64,159,184	25,060,651	(1,936,814)	(43,640,297)	(43,640,297)	(96,502)	(2,967,231)	1,173,960	41,752,951
Water Infrastructure WIP	57,590,562	57,590,562	54,441,630	(24,166,967)	-	-	-	-	-	87,865,225
Sewerage Infrastructure WIP	1,275,140	1,275,140	990,512	-	(1,275,139)	(1,275,139)	-	-	-	990,513
Electrical Infrastructure WIP	3,694,084	3,694,084	-	(3,694,084)	-	-	-	-	-	-
Buildings	1,141,637	1,141,637	-	-	(447,424)	(447,424)	-	(81,904)	-	612,309
Land	2,757,236	2,757,236	-	-	-	-	-	-	-	2,757,236
Recreational Facilities	1,949,712	1,949,712	-	-	(429,229)	(429,229)	-	(132,584)	-	1,387,899
Recreational Facilities WIP	6,491,527	6,491,527	254,703	-	-	-	(1,511,382)	-	-	5,234,848
Landfill sites	7,132,834	7,132,834	3,925,727	-	(7,132,834)	(7,132,834)	-	(336,278)	-	3,589,449
Computer Equipment	1,040,275	1,040,275	49,677	-	(851,317)	(851,317)	-	(99,077)	-	139,558
Office Equipment	328,651	328,651	-	-	(243,722)	(243,722)	-	(21,302)	-	63,627
Furniture and Fittings	1,478,220	1,478,220	142,656	(5,920)	(1,226,937)	(1,226,937)	-	(98,629)	5,848	295,238
Transport Assets	6,515,702	6,515,702	-	-	(5,112,821)	(5,112,821)	-	(777,446)	-	625,435
Plant and Equipment	1,339,508	1,339,508	62,477	-	(1,161,704)	(1,161,704)	-	(82,010)	-	158,271
	<b>501,527,938</b>	<b>501,527,938</b>	<b>88,669,941</b>	<b>(29,803,785)</b>	<b>(181,728,130)</b>	<b>(181,728,130)</b>	<b>(1,511,382)</b>	<b>(32,172,896)</b>	<b>1,179,808</b>	<b>346,161,494</b>

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>9. Property, plant and equipment (continued)</b>		
<b>Property, plant and equipment in the process of being constructed or developed</b>		
<b>Cumulative expenditure recognised in the carrying value of property, plant and equipment</b>		
Water Infrastructure	110,171,017	87,865,226
Sewerage Infrastructure	990,513	990,513
Community Infrastructure	5,526,871	5,234,848
	<b>116,688,401</b>	<b>94,090,587</b>
<b>Reconciliation of Work-in-Progress 2022</b>		
	Infrastructure under construction	Total
Opening balance	94,090,587	94,090,587
Additions/capital expenditure under construction	22,597,694	22,597,694
Transferred to completed items	-	-
	<b>116,688,281</b>	<b>116,688,281</b>
<b>Reconciliation of Work-in-Progress 2021</b>		
	Infrastructure under construction	Total
Opening balance	67,776,174	67,776,174
Additions/capital expenditure under construction	55,686,845	55,686,845
Impairment of WIP	(1,511,382)	(1,511,382)
Transferred to completed items	(27,861,050)	(27,861,050)
	<b>94,090,587</b>	<b>94,090,587</b>
<b>Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected</b>		
Upgrading of Warrenton Water treatment works Supplier terminated contract due to lack of payment. This is resulting in a delay. The project has been resumed in 2021.	-	-
Electrical Infrastructure - Upgrading of the electrical MV and LV networks Contract with original supplier terminated due to little progress done on project, a new supplier was contracted subsequent to termination.	-	3,694,083
Water conservation and demand management The Eskom electricity supply entailed a connection of a new 50KVA transformer to supply electricity to the pumps. The connection was finalized towards the end of April 2021. As a result, we recalled the consultant and the contractor back to site to connect the pumps to the electricity supply and commission the pumps, pipeline and 1ML reservoir. For a period of two weeks the pumps ran continuously so that we could detect any leakages in the system. There were leakages in the mechanical seals of the pumps that resulted in the flooding of the pumphouse and on the 1ML reservoir. The contractor is currently on site and rectifying these leakages, after this the practical completion will be finalized and the project will be handed over to Magareng.	-	23,799,245
	<b>-</b>	<b>27,493,328</b>

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand

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

#### Carrying value of property, plant and equipment where construction or development has been halted either during the current or previous reporting period(s)

Vacuum Sewer Project	-	-
This project has been halted, and funding was shifted to a new project. It has been impaired in the previous year.	-	-
	<u>-</u>	<u>-</u>

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

Inventory, spares and parts consumed	5,287,807	1,857,662
	<u>5,287,807</u>	<u>1,857,662</u>

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

#### Deemed cost

Deemed cost was determined using depreciated replacement cost.

#### Assets pledged as security

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

#### Impairment losses of Property, Plant and Equipment

Impairment losses on Property, Plant and Equipment recognised in Statement of Financial Performance are as follows:

Infrastructure	-	-
Community Assets	-	1,511,382
Motor vehicles	-	152,012
	<u>-</u>	<u>1,663,394</u>

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

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### 10. Intangible assets

	2022			2021		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	885,244	(865,454)	19,790	885,244	(845,663)	39,581

#### Reconciliation of intangible assets - 2022

	Opening balance	Additions	Amortisation	Total
Computer software	39,581	-	(19,791)	19,790

#### Reconciliation of intangible assets - 2021

	Opening balance	Amortisation	Total
Computer software	79,162	(39,581)	39,581

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

No intangible assets were assessed as having an indefinite useful life.

There are no internally generated intangible assets at reporting date.

There are no contractual commitments for the acquisition of intangible assets.

There are no intangible assets whose title is restricted.

There are no intangible assets currently under construction.



# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

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### 11. Heritage assets

	2022			2021		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	370,999	-	370,999	370,999	-	370,999

#### Reconciliation of heritage assets 2022

	Opening balance	Total
Art Collections, antiquities and exhibits	370,999	370,999

#### Reconciliation of heritage assets 2021

	Opening balance	Total
Art Collections, antiquities and exhibits	370,999	370,999

#### Restrictions on heritage assets

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

#### Pledged as security

There are no heritage assets pledged as security.

No expenditure on repairs and maintenance was incurred on heritage properties.

#### Revaluations

##### Art collections

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

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

### 12. Non-current Receivables from exchange transactions

Electricity	2,451,620	852,407
Refuse	772,974	418,589
Sewerage	557,391	379,646
Sundry	131,707	96,651
Water	3,482,094	1,401,234
Less: Impairment	(7,395,781)	(3,148,522)
	<u>5</u>	<u>5</u>

Non-current receivables represent consumer debtors with arrangements to pay off their debts over a period of more than 12 months.

These debtors are fully impaired as per the municipality's impairment methodology.

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>13. Non-current Receivables from non-exchange transactions</b>		
Property rates	1,931,023	929,926
Less: Impairment	(1,931,022)	(929,925)
	<u>1</u>	<u>1</u>

Non-current receivables represent consumer debtors with arrangements to pay off their debts over a period of more than 12 months.

These debtors are fully impaired as per the municipality's impairment methodology.

### 14. Payables from exchange transactions

Trade payables	234,345,256	216,364,855
Payments received in advanced	3,864,629	3,271,252
Unknown deposits	7,599,183	8,058,985
Salary control	5,020,228	3,800,794
Retention creditor	10,236,068	9,907,894
Sundry creditors	16,765	13,645
	<u>261,082,129</u>	<u>241,417,425</u>

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>15. Consumer deposits</b>		
Electricity	198,968	185,430
Water	692,629	674,218
Sale of land	130,322	130,322
Halls and facilities	12,598	12,598
	<b>1,034,517</b>	<b>1,002,568</b>
<b>16. Current Employee Benefits</b>		
Staff Bonuses	1,397,817	1,424,473
Staff leave	4,840,211	5,132,825
Current Portion of Non-Current Employee Benefits	488,000	549,000
Current Portion of Post Retirement Benefits - Note 16	217,000	207,000
Current Portion of Long-Service Provisions - Note 16	271,000	342,000
	<b>6,726,028</b>	<b>7,106,298</b>
<b>16.1 Staff Bonuses</b>		
Balance at the beginning of the year	1,424,472	1,332,894
Contribution to current portion	2,581,110	2,498,280
Expenditure incurred	(2,607,765)	(2,406,702)
	<b>1,397,817</b>	<b>1,424,472</b>
Bonuses have been paid to all Municipal staff including the Section 57 Managers as per their package structures. The balance at year end represent the portion of the bonus that have already vested for the current salary cycle. There is no possibility of reimbursement		
<b>16.2 Staff Leave</b>		
Balance at the beginning of the year	5,132,826	4,073,570
Contribution to current portion	177,027	1,363,140
Expenditure incurred	(469,642)	(303,884)
	<b>4,840,211</b>	<b>5,132,826</b>

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>17. Employee benefit obligations</b>		
<b>The amounts recognised in the statement of financial position are as follows:</b>		
Non-current liabilities	(4,714,000)	(4,515,000)
Current liabilities	(488,000)	(549,000)
	<u>(5,202,000)</u>	<u>(5,064,000)</u>
<b>Employee benefits</b>		
<b>Benefits</b>		
Post retirement	2,161,000	2,191,000
Long service awards	2,553,000	2,324,000
<b>Total Non-current Employee Benefit Liabilities</b>	<u><b>4,714,000</b></u>	<u><b>4,515,000</b></u>

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>17. Employee benefit obligations (continued)</b>		
<b>Post retirement benefits</b>		
Balance 1 July	2,398,000	1,769,000
Contribution for the year	-	-
Interest cost	210,000	156,000
Expenditure for the year	(130,085)	(283,700)
Actuarial (Gain)/loss	(99,915)	756,700
Total post retirement benefit - 30 June	2,378,000	2,398,000
Less: Transfer to current portion	(217,000)	(207,000)
<b>Balance 30 June</b>	<b>2,161,000</b>	<b>2,191,000</b>
<b>Long service award</b>		
Balance 1 July	2,666,000	2,444,000
Contribution for the year	273,000	251,000
Interest cost	228,000	167,000
Expenditure for the year	(147,301)	(142,765)
Actuarial (Gain)/loss	(195,699)	(53,235)
Total post retirement benefit - 30 June	2,824,000	2,666,000
Less: Transfer to current portion	(271,000)	(342,000)
<b>Balance 30 June</b>	<b>2,553,000</b>	<b>2,324,000</b>
<b>Total Non-current employee benefits</b>		
Balance 1 July	5,064,000	4,213,000
Contribution for the year	273,000	251,000
Interest cost	438,000	323,000
Expenditure for the year	(277,386)	(426,465)
Actuarial (Gain)/loss	(295,614)	703,465
Total post retirement benefit - 30 June	5,202,000	5,064,000
Less: Transfer to current portion	(488,000)	(549,000)
<b>Balance 30 June</b>	<b>4,714,000</b>	<b>4,515,000</b>
<b>Post Retirement Medical Aid Benefit</b>		
The Post Retirement Benefit Plan is a defined benefit plan, or which the members are made up as follows:		
<b>Members</b>		
In-service (employee) members	-	-
Continuation members (Pensioners)	5	5
	<b>5</b>	<b>5</b>
The liability in respect of past service has been estimated to be as follows:		
<b>Liability</b>		
In-service (employee) members	-	-
Continuation members (Pensioners)	2,378,000	2,398,000
	<b>2,378,000</b>	<b>2,398,000</b>

The liability in respect of periods commencing prior to the comparative year has been estimated as follows:

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

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Figures in Rand 2022 2021

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### 17. Employee benefit obligations (continued)

	2020	2019	2018
In-service (employee) members	-	-	-
Continuation members (Pensioners)	1,769,000	2,241,000	2,223,000
	<u>1,769,000</u>	<u>2,241,000</u>	<u>2,223,000</u>

Experience adjustments were calculated as follows:

	2022 (R'm)	2021 (R'm)	2020 (R'm)
Liabilities: Gains/Loss	0.009	0.452	0,459

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

Bonitas  
LA Health  
Samwumed  
Keyhealth

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

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Figures in Rand	2022	2021
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### 17. Employee benefit obligations (continued)

#### Key assumptions used

Assumptions used at the reporting date:

Discount rates	10.81 %	9.13 %
Health care cost inflation rate	7.74 %	6.27 %
Net discount rate	2.85 %	2.69 %

#### Mortality rates

Mortality post-employment has been based on the PA (90) ultimate mortality tables rated down by 1 year with 1% mortality improvement p.a from 2010.

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

Present value of fund obligation	<u>2,378,000</u>	<u>2,398,000</u>
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The liability in respect of periods commencing prior to the comparative year has been estimated as follows:

#### Reconciliation of present value of fund obligation - 2022

Opening Balance	Total Expenses	Actuarial loss	Transfers	Closing Balance
2,398,000	210,000	(99,915)	(130,085)	2,378,000

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#### Reconciliation of present value of fund obligation - 2021

Opening Balance	Total Expenses	Actuarial loss	Transfers	Closing Balance
1,769,000	156,000	756,700	(283,700)	2,398,000

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# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 17. Employee benefit obligations (continued)

#### Sensitivity Analysis on the Accrued Liability

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

Assumption	Change	Total liability (R)
Health care inflation	+1%	2,580,000
Health care inflation	-1%	2,199,000
Discount rate	+1%	2,205,000
Discount rate	-1%	2,576,000
Post employment mortality	+1 Year	2,283,000
Post employment mortality	-1 Year	2,474,000

#### Sensitivity Analysis Interest Costs for year ending 30/06/2022:

Assumption	Change	Interest Cost
Valuation Assumption	-	-
Health care inflation	+1%	229,000
Health care inflation	-1%	192,000
Discount rate	+1%	214,000
Discount rate	-1%	204,000
Mortality rate	-1yr	218,000
	-	-

### Long Service Bonuses

The Long Service Bonus plans are defined benefit plans.

As at year end, the following number of employees were eligible for long service bonuses	136	146
	<b>136</b>	<b>146</b>



# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 17. Employee benefit obligations (continued)

The current-service cost for the year ending 30 June 2022 is R 273,000. The current-service cost for the ensuing year has been estimated to be R 274,000.

#### Key assumptions used

i) Rate of interest:

Discount rates	10.81	%	9.13	%
General earnings inflation rate (long-term)	7.24%		5.77%	
Net Effective Discount Rate	3.33%		3,18%	
Average retirement age	62		62	

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

Present value of fund obligations	<u>2,824,000</u>	<u>2,666,000</u>
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The liability in respect of periods commencing prior to the comparative year has been estimated as follows:

	2020	2019	2018
Total Liability	<u>2,444,000</u>	<u>2,339,000</u>	<u>2,082,000</u>

Experience adjustments were calculated as follows:

	2022	2021
Liabilities: (Gain) / Loss	<u>44,000</u>	<u>125,000</u>
	<b><u>44,000</u></b>	<b><u>125,000</u></b>

#### Reconciliation of present value of fund obligation - 2022

Opening Balance	Total Expenses	Actuarial gain	Transfers	Closing Balance
2,666,000	501,000	(195,699)	(147,301)	2,824,000

#### Reconciliation of present value of fund obligation - 2021

Opening Balance	Total Expenses	Actuarial gain	Transfers	Closing Balance
2,444,000	418,000	(53,235)	(142,764)	2,666,000

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 17. Employee benefit obligations (continued)

Sensitivity Analysis on the unfunded accrued liability:

Assumption	Change	Total liability (R)
General earnings inflation rate	+1%	2,979,000
General earnings inflation rate	-1%	2,681,000
Discount rate	+1%	2,674,000
Discount rate	-1%	2,989,000
Average retirement age	+2 yrs	3,046,000
Average retirement age	-2 yrs	2,489,000
Withdrawal rates	x200%	2,304,000
Withdrawal rates	x50%	3,169,000

### Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2022:

Assumption	Change	Current service cost	Interest Cost	Total
Central Assumption	-	273,000	228,000	501,000
General earnings inflation rate	+1%	294,000	242,000	536,000
General earnings inflation rate	-1%	254,000	215,000	469,000
Discount rate	+1%	256,000	238,000	494,000
Discount rate	-1%	292,000	217,000	509,000
Average retirement age	+2yrs	295,000	250,000	545,000
Average retirement age	-2yrs	251,000	201,000	452,000
Withdrawal rates	x120%	199,000	181,000	380,000
Withdrawal rates	x80%	326,000	260,000	586,000

### Retirement funds

The Municipality requested detailed employee and pensioner information as well as information on the Municipality's share of the Pension and Retirement Funds' assets from the fund administrator. The fund administrator confirmed that assets of the Pension and Retirement Funds are not split per participating employer. Therefore, the Municipality is unable to determine the value of the plan assets as defined in GRAP 25.

As part of the Municipality's process to value the defined benefit liabilities, the Municipality requested pensioner data from the fund administrator. The fund administrator claim the pensioner data to be confidential and were not willing to share the information with the Municipality. Without detailed pensioner data the Municipality was unable to calculate a reliable estimate of the accrued liability in respect of pensioners who qualify for a defined benefit pension.

Therefore, although the Consolidated Retirement Fund for Local Government is a Multi Employer Fund defined as a defined benefit plan, it will be accounted for as a defined contribution plan. All the required disclosure has been made as defined in GRAP 25.31

### Consolidated Retirement Fund for Local Government

The contribution rate payable is 9% by members and 18% by Council. The last actuarial valuation performed for the year ended 30 June 2019 revealed that the fund is in a sound financial position with a funding level of 100.3% (30 June 2018 - 100.4%)

Contributions paid recognised in the Statement of Financial Performance	1,825,413	1,825,842
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# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand

	2022	2021
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### 17. Employee benefit obligations (continued)

Defined contribution funds

Council contributes to the SALA Pension Fund, Municipal Councillors Pension Fund and Municipal Workers Retirement Fund which are defined contribution funds. The retirement benefit fund is subject to the Pension Fund Act, 1956, with pension being calculated on the pensionable remuneration paid. Current contributions by Council are charged against expenditure on the basis of current service costs.

SALA Pension Fund	1,593,382	1,657,095
Municipal Councillors Pension Fund	412,258	146,005
Municipal Workers Retirement Fund	1,867,127	1,963,137
	<b>3,872,767</b>	<b>3,766,237</b>

### 18. Unspent conditional grants and receipts

#### Unspent conditional grants

Municipal Infrastructure Grant (MIG)	866,401	6,706,458
Municipal Disaster Relief Grant (MDG)	4,336,051	-
	-	-
	-	-
	<b>5,202,452</b>	<b>6,706,458</b>

Balance previously reported		6,706,458
Correction of error - refer to note 47		-
<b>Restated balance</b>		<b>6,706,458</b>

#### Unpaid conditional grants

Francis Baard District Municipality	-	127,843
Regional Bulk Water Infrastructure Grant	-	5,817,267
	-	-
	-	-
	-	-
	<b>5,945,110</b>	<b>5,945,110</b>

Balance previously reported		127,843
Correction of error - refer to note 47		5,817,267
<b>Restated balance</b>		<b>5,945,110</b>

See appendix "A" for reconciliation of grants from other spheres of government.

The Unspent Grants are not cash-backed by term deposits or any other form of cash and cash equivalents

See note 30 for reconciliation of grants from National/ Provincial Government/ District Municipalities.

Roll overs were not applied for all grants at year-end.

Unspent grants can mainly be attributed to projects that are still work in progress on the relevant financial year-ends.

Unpaid grants relate to the Francis Baard District Municipality grants that were received after year-end.

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 19. Provisions

#### Reconciliation of provisions - 2022

	Opening Balance	Additions	Change in discount factor	Total
Environmental rehabilitation	15,736,964	2,345,471	1,855,459	19,937,894

#### Reconciliation of provisions - 2021

	Opening Balance	Additions	Change in discount factor	Total
Environmental rehabilitation	10,552,573	3,925,727	1,258,664	15,736,964

#### Environmental rehabilitation provision

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

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

- Increase in inflation from 4.9% in 2021 to 7.4% in 2022.
- Larger contaminated areas identified outside the fenced site.
- The rates for materials and construction have increased due to significant increases in fuel prices and shipping and importing costs of raw materials.

#### Warrenton

Estimated decommission date - 2032			<b>Cost of rehabilitation</b> 52,982,358	<b>Cost of rehabilitation</b> 39,342,228
Area of landfill site consumed	2019	2020	2021	2022
Warrenton	72,15%	72,15%	72,15%	72,15%
Discount rate used	9.26%	8,83%	8.83%	10.43%

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

### 20. Service charges

Sale of electricity	15,233,585	15,211,584
Sale of water	8,860,887	8,671,186
Sewerage and sanitation charges	8,112,155	8,017,865
Refuse removal	5,835,976	5,597,857
Less: Indigent subsidies	(857,067)	(4,253,566)
	<b>37,185,536</b>	<b>33,244,926</b>

### 21. Interest earned - Exchange transactions

Exchange receivables	7,483,835	11,560,527
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Interest on Exchange receivables are charged at 5% (2021: 10.5%) per annum.

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>22. Agency services</b>		
Licences and Other	93,314	158,716
<b>23. Sale of goods and rendering of services</b>		
Valuation services	16,924	13,077
Burial fees	116,303	138,547
Clearance certificates	80,828	49,472
Sale of goods	21,415	17,000
VAT on Grants	681,652	176,208
	<b>917,122</b>	<b>394,304</b>
<b>24. Operational revenue</b>		
Commission received from third parties	58,431	56,641
<b>25. Interest earned - External Investments</b>		
<b>Interest revenue</b>		
Bank	94,730	178,876
<b>26. Property rates</b>		
<b>Rates received</b>		
Residential Properties	4,830,857	4,835,216
Business and Commercial Property	1,303,185	1,316,734
State-owned Properties	2,377,366	2,326,517
Municipal Properties	39,532	37,851
Small holdings and farms	3,075,654	2,992,174
Industrial Property	47,532	45,490
	<b>11,674,126</b>	<b>11,553,982</b>
<b>Valuations</b>		
Residential	518,369,500	518,369,500
Commercial	62,091,010	62,091,010
State	126,052,000	126,052,000
Municipal	108,121,400	108,121,400
Small holdings and farms	996,863,000	996,863,000
Acquired - communal property association	23,620,000	23,620,000
PBO - Public Benefit Organisations	49,530,000	49,530,000
	<b>1,884,646,910</b>	<b>1,884,646,910</b>
Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2018. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.		
Rates are levied on a monthly basis and payable within 30 days. Interest at 5% per annum (2021: 10.5%) is levied on rates outstanding two months after due date.		
The new general valuation will be implemented on 01 July 2024.		
<b>27. Interest from non-exchange receivables</b>		
Property rates	1,466,801	2,770,245

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>28. Licences and permits</b>		
Road and Transport	<u>240,823</u>	<u>195,246</u>
<b>29. Gains/(Loss) on disposal of Fixed Assets</b>		
Property, plant and equipment	<u>(699,740)</u>	<u>(176,176)</u>

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>30. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	51,086,000	56,612,000
Finance Management Grant	2,850,000	2,800,000
Frances Baard District Municipality Operating Grant	4,602,716	2,666,146
Municipal Disaster Relief Fund	2,104,408	-
Library Development Fund	1,100,000	950,000
Expanded Public Works Programme (EPWP)	1,121,000	1,078,000
	<b>62,864,124</b>	<b>64,106,146</b>
<b>Capital grants</b>		
Municipal Infrastructure Grant	8,174,599	2,854,542
Francis Baard District Municipality Capital Grant	3,695,652	1,334,612
Regional Bulk Infrastructure Grant (RBIG)	12,859,607	60,193,062
Water Services Infrastructure Grant (WSIG)	4,000,000	-
	<b>28,729,858</b>	<b>64,382,216</b>
	<b>91,593,982</b>	<b>128,488,362</b>
<b>Conditional and Unconditional</b>		
Included in above are the following grants and subsidies received:		
Conditional grants received	46,325,249	66,059,095
Unconditional grants received	51,086,000	56,612,000
	<b>97,411,249</b>	<b>122,671,095</b>
<b>30.1 Equitable Share</b>		
Opening Balance	-	-
Current-year receipts	51,086,000	56,612,000
Conditions met - transferred to revenue	(51,086,000)	(56,612,000)
	<b>-</b>	<b>-</b>
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
<b>30.2 Finance Management Grant (FMG)</b>		
Opening Balance	-	274,928
Current-year receipts	2,850,000	2,800,000
Conditions met - transferred to revenue	(2,850,000)	(2,800,000)
Repaid/Withheld to/from National Revenue Fund	-	(274,928)
	<b>-</b>	<b>-</b>

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>30. Government grants and subsidies (continued)</b>		
<b>30.3 Frances Baard District Municipality Capital and Operating Grant</b>		
Opening Balance	(127,843)	(1,420,302)
Current-year receipts	8,427,843	5,293,217
Conditions met - transferred to revenue (Operational)	(8,298,368)	(2,666,146)
Conditions met - transferred to revenue (Capital)	-	(1,334,612)
Funds Forfeited	(1,632)	-
	<u>-</u>	<u>(127,843)</u>

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

### 30.4 Library Development Fund

Current-year receipts	1,100,000	950,000
Conditions met - transferred to revenue	(1,100,000)	(950,000)
Other	-	-
	<u>-</u>	<u>-</u>

The Department of Sport, Arts & Culture grant was used for the development of libraries in the Magareng area.

### 30.5 Expanded Public Works Programme (EPWP)

Current-year receipts	1,121,000	1,078,000
Conditions met - transferred to revenue	(1,121,000)	(1,078,000)
	<u>-</u>	<u>-</u>

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

### 30.6 Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	6,706,458	4,752,303
Current-year receipts	11,541,000	11,119,000
National Revenue Fund allocation correction	(2,500,000)	(1,558,000)
Conditions met - transferred to revenue	(8,174,599)	(2,854,542)
Repaid/Withheld to/from National Revenue Fund	(6,706,458)	(4,752,303)
	<u>866,401</u>	<u>6,706,458</u>

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

### 30.7 Intergrated National Electrification Programme (INEP)

Opening Balance	-	631,049
Repaid/Withheld to/from National Revenue Fund	-	(631,049)
	<u>-</u>	<u>-</u>

The Intergrated National Electrification Programme Grant is a conditional grant provided by the Department of Energy to assist municipalities with funding for the implementation of electrification projects.



# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>30. Government grants and subsidies (continued)</b>		
<b>30.8 Regional Bulk Infrastructure Grant (RBIG)</b>		
Opening Balance	(5,817,267)	-
Current-year receipts	18,676,874	54,375,795
Conditions met - transferred to revenue	(12,859,607)	(60,193,062)
Other	-	-
	<u>-</u>	<u>(5,817,267)</u>

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

### 30.9 Water Services Infrastructure Grant (WSIG)

Current-year receipts	4,000,000	-
Conditions met - transferred to revenue	(4,000,000)	-
Other	-	-
	<u>-</u>	<u>-</u>

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>31. Employee related costs</b>		
Basic	35,816,783	33,353,310
Bonus	2,581,110	2,498,281
Medical aid - company contributions	2,281,085	1,948,926
UIF	339,580	308,797
SDL	413,986	347,324
Other payroll levies	-	16,286
Leave pay provision charge	188,437	1,364,637
Pension contributions	5,492,694	5,330,722
Travel, motor car, accommodation, subsistence and other allowances	1,234,945	981,031
Overtime payments	2,899,345	3,090,743
Long-service awards	273,000	251,000
Acting allowances	95,105	101,613
Housing benefits and allowances	513,787	498,760
	<b>52,129,857</b>	<b>50,091,430</b>
<b>Remuneration of municipal manager - EM Moncho (Appointed 1 July 2018)</b>		
Annual Remuneration	611,250	626,230
Travel Allowance	330,791	289,561
Housing Allowance	154,413	154,413
Contributions to UIF, Medical and Pension Funds	13,073	10,324
Leave pay	56,160	-
	<b>1,165,687</b>	<b>1,080,528</b>
Mrs Moncho was appointed from 1 July 2018 until 30 June 2022,		
<b>Remuneration of Chief Financial Officer - MM Motswaledi (Appointed 1 June 2017)</b>		
Annual Remuneration	555,859	593,895
Travel Allowance	300,596	262,560
Contributions to UIF, Medical and Pension Funds	144,028	138,590
	<b>1,000,483</b>	<b>995,045</b>
<b>Remuneration of the HOD Corporate Services - CD Lentsoe (Appointed May 2012)</b>		
Annual Remuneration	566,583	566,583
Travel Allowance	183,506	183,506
Contributions to UIF, Medical and Pension Funds	148,700	145,300
	<b>898,789</b>	<b>895,389</b>
<b>Remuneration of the HOD Technical Services - TM Thage (Appointed April 2021)</b>		
Annual Remuneration	671,333	169,403
Travel Allowance	390,231	87,155
Contributions to UIF, Medical and Pension Funds	12,134	2,888
Cellphone allowance	9,000	2,250
	<b>1,082,698</b>	<b>261,696</b>

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand

	2022	2021
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### 32. Remuneration of councillors

Annual remuneration	4,263,308	3,598,160
	<b>4,263,308</b>	<b>3,598,160</b>

### Remuneration of Mayor- NL Mase (March 2020)

Councillor salary	537,326	526,171
Medical aid contributions	33,098	29,137
Pension contributions	24,932	49,864
Travel allowance	195,410	201,516
Cellphone allowance	40,800	40,800
Data allowance	109	-
	<b>831,675</b>	<b>847,488</b>

### In-kind benefits

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

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

### Remuneration of Councillor - J Louw (August 2016)

Councillor salary	68,846	191,318
Medical aid contributions	-	-
Pension contributions	-	-
Travel allowance	22,949	63,772
Cellphone allowance	14,682	40,800
Data allowance	1,295	3,600
	<b>107,772</b>	<b>299,490</b>

### Remuneration Councillor - WJ Potgieter (August 2016)

Councillor salary	217,418	213,500
Medical aid contributions	-	-
Pension contributions	30,882	32,025
Travel allowance	82,803	81,841
Cellphone allowance	40,800	40,800
Data allowance	3,600	3,600
	<b>375,503</b>	<b>371,766</b>

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>32. Remuneration of councillors (continued)</b>		
<b>Remuneration of Councillor - AK Zalisa (June 2015)</b>		
Councillor salary	77,677	213,500
Medical aid contributions	-	-
Pension contributions	10,675	32,025
Travel allowance	29,451	81,841
Cellphone allowance	14,682	40,800
Data allowance	1,295	3,600
	<b>133,780</b>	<b>371,766</b>
<b>Remuneration of Councillor - JD Tshekei (August 2016)</b>		
Councillor salary	70,151	195,158
Medical aid contributions	13,481	29,137
Pension contributions	9,645	29,273
Travel allowance	30,341	84,315
Cellphone allowance	14,682	40,800
Data allowance	1,295	3,600
	<b>139,595</b>	<b>382,283</b>
<b>Remuneration of Councillor - KG Freddie (August 2016)</b>		
Councillor salary	77,677	213,500
Medical aid contributions	-	-
Pension contributions	10,675	32,025
Travel allowance	29,451	81,841
Cellphone allowance	14,682	40,800
Data allowance	1,295	3,600
	<b>133,780</b>	<b>371,766</b>
<b>Remuneration of Councillor - T Cross (August 2016)</b>		
Councillor salary	80,703	221,818
Medical aid contributions	-	-
Pension contributions	11,091	33,272
Travel allowance	-	-
Cellphone allowance	14,682	40,800
Data allowance	1,295	3,600
	<b>107,771</b>	<b>299,490</b>

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>32. Remuneration of councillors (continued)</b>		
<b>Remuneration of Councillor - LR Namelang (December 2020)</b>		
Councillor salary	212,873	135,467
Medical aid contributions	52,515	21,387
Pension contributions	11,091	19,409
Cellphone allowance	40,800	24,771
Data allowance	3,600	2,185
	<b>320,879</b>	<b>203,219</b>
<b>Remuneration of Councillor - TE Mokola (September 2017)</b>		
Councillor salary	65,903	181,505
Medical aid contributions	17,434	41,034
Pension contributions	9,075	27,225
Travel allowance	29,451	81,841
Cellphone allowance	14,682	40,800
Data allowance	1,295	3,600
	<b>137,840</b>	<b>376,005</b>
<b>Remuneration of Councillor - MA Mochane (August 2018)</b>		
Councillor salary	-	41,590
Medical aid contributions	-	-
Pension contributions	-	6,238
Travel allowance	-	15,943
Cellphone allowance	-	10,200
Data allowance	-	900
	<b>-</b>	<b>74,871</b>
<b>Remuneration of Councillor - KC Mekhoa (November 2021)</b>		
Councillor salary	143,888	-
Pension contributions	19,409	-
Cellphone allowance	26,118	-
Data allowance	2,305	-
	<b>191,720</b>	<b>-</b>
<b>Remuneration of Councillor - L Valtyn (November 2021)</b>		
Councillor salary	178,305	-
Pension contributions	24,123	-
Cellphone allowance	26,118	-
Data allowance	2,305	-
	<b>230,851</b>	<b>-</b>
<b>Remuneration of Councillor - MF Mokitimi (November 2021)</b>		
Councillor salary	176,932	-

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>32. Remuneration of councillors (continued)</b>		
Medical contributions	1,579	-
Pension contributions	23,917	-
Cellphone allowance	26,118	-
Data allowance	2,305	-
	<b>230,851</b>	<b>-</b>
<b>Remuneration of Councillor - B Mokomela (November 2021)</b>		
Councillor salary	187,463	-
Pension contributions	24,768	-
Cellphone allowance	26,118	-
Data allowance	2,305	-
	<b>240,654</b>	<b>-</b>
<b>Remuneration of Councillor - LO Amose (November 2021)</b>		
Councillor salary	172,922	-
Medical contributions	6,190	-
Pension contributions	23,315	-
Cellphone allowance	26,118	-
Data allowance	2,305	-
	<b>230,850</b>	<b>-</b>
<b>Remuneration of Councillor - CM Mere (November 2021)</b>		
Councillor salary	154,583	-
Pension contributions	20,564	-
Travel allowance	27,281	-
Cellphone allowance	26,118	-
Data allowance	2,305	-
	<b>230,851</b>	<b>-</b>
<b>Remuneration of Councillor - D Watson (November 2021)</b>		
Councillor salary	143,888	-
Pension contributions	19,409	-
Cellphone allowance	26,118	-
Data allowance	2,305	-
	<b>191,720</b>	<b>-</b>
<b>Remuneration of Councillor - BG Plata (November 2021)</b>		
Councillor salary	351,928	-
Pension contributions	49,065	-
Cellphone allowance	26,118	-
Data allowance	109	-
	<b>427,220</b>	<b>-</b>

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>33. Depreciation and amortisation</b>		
Property, plant and equipment	<u>25,973,812</u>	<u>32,060,468</u>
<b>34. Impairment of assets</b>		
<b>Impairments</b>		
Property, plant and equipment	-	1,663,395
The recoverable amount of all assets were assessed at year-end and it was found that certain assets had a recoverable amount less than the carrying value, therefore an impairment loss was raised.		
<b>35. Finance costs</b>		
Trade and other payables	3,153,795	2,736,862
Employee benefit liability	438,000	323,000
Landfill rehabilitation provision	1,855,459	1,258,664
	<u>5,447,254</u>	<u>4,318,526</u>
<b>36. Debt impairment</b>		
Contributions to debt impairment provision	<u>35,390,970</u>	<u>36,857,296</u>
<b>37. Bulk purchases</b>		
Electricity	22,499,350	20,555,889
Water	11,329,057	7,380,702
	<u>33,828,407</u>	<u>27,936,591</u>
<b>38. Contracted services</b>		
<b>Outsourced Services</b>		
Burial Services	10,491	7,151
Business and Advisory	2,684,091	3,333,702
Catering Services	32,368	21,483
<b>Consultants and Professional Services</b>		
Business and Advisory	3,422,402	616,024
Legal Cost	170,883	326,643
<b>Contractors</b>		
Employee Wellness	43,995	46,608
Maintenance of Buildings and Facilities	397,471	-
Safeguard and Security	878,438	24,000
	<u>7,640,139</u>	<u>4,375,611</u>
<b>39. Unauthorised debit orders</b>		
Unauthorised debit orders	<u>946,907</u>	<u>801,711</u>

The unauthorised debit order amounts arise from unauthorised debit orders that were debited to the bank account of the municipality. Correspondence from the bank indicated that the monies are not recoverable, therefore an expense was recognised in this regard.

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>40. Operational Costs</b>		
Advertising, publicity and marketing	81,665	63,344
Assets less than the capitalisation threshold	22,642	-
Bank Charges, Facility and Card Fees	253,559	620,820
Bursaries	207,486	684,929
Commission paid	2,193,711	117,350
Communication	659,835	969,332
Drivers Licences and Permits	120,622	148,159
Entertainment	106,349	46,017
External Audit fees	1,443,527	2,787,537
External Computer Services	1,011,067	1,803,290
Hire	-	725,535
Insurance Underwriting	225,967	274,350
Management Fee	223,606	281,566
Municipal services	1,265,179	913,552
Printing and stationery	-	2,334
Subscriptions and membership fees	508,705	501,219
Tourism development	-	284,000
Travel and Subsistence	575,043	201,745
Uniform and Protective clothing	224,031	135,192
	<b>9,122,994</b>	<b>10,560,271</b>
<b>41. Inventory consumed</b>		
Materials, supplies and other consumables	8,160,058	5,191,306
	<b>8,160,058</b>	<b>5,191,306</b>
<b>42. Fair value adjustments</b>		
Investment property (Fair value model)	-	-
<b>43. Auditors' remuneration</b>		
Fees	1,443,527	2,787,537



# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>44. Cash generated from operations</b>		
(Deficit) surplus	(27,253,052)	11,038,588
<b>Adjustments for:</b>		
Depreciation and amortisation	25,973,812	32,060,468
(Gain)/Loss on sale of assets and liabilities	699,740	176,176
Contributed Property, plant and equipment	(4,780,677)	(15,000)
Reversal of Impairment Loss/(Impairment Loss) on Fixed Assets	-	1,663,395
Debt impairment	35,390,970	36,857,296
Bad debts written off	-	139,926
Movements in operating lease assets and accruals	-	833
Contribution from/to provisions - Non-Current Employee Benefits	138,000	851,000
Change in Provision for Rehabilitation Cost	1,855,459	1,258,664
Contribution from/to - Current Employee Benefits	(319,270)	1,150,833
Government grants - Non-cash	(4,099,025)	(2,758,651)
Public contributions	(326,348)	-
Other non-cash items	625	-
<b>Changes in working capital:</b>		
Inventory	(1,050)	8,049
Trade and other Receivables	(35,790,940)	(45,166,936)
Payables from exchange transactions	21,659,967	18,971,078
Taxes Receivable	(887,306)	2,134,543
Unspent conditional grants and Public Donations	(1,504,006)	1,048,177
Consumer deposits	31,949	36,870
Unpaid conditional grants	5,945,108	(4,524,806)
	<b>16,733,956</b>	<b>54,930,503</b>
<b>45. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not recognised</b>		
• Property, plant and equipment	12,668,067	31,575,769
<b>Total capital commitments</b>		
Already contracted for but not recognised	12,668,067	31,575,769
<b>Total commitments</b>		
<b>Total commitments</b>		
Authorised capital expenditure	12,668,067	31,575,769

This committed expenditure relates to property and will be financed by government grants.

The 2021 commitment amount has been restated due to completed projects being incorrectly included in the register.  
Amount previously disclosed: R67 892 844

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>46. Contingent liability</b>		
<b>Beckley VD vs Magareng LM</b>	68,979	68,798
This relates to a dispute on the valuation and clearance amounts. The matter is currently still before the courts.		
<b>TL Galane vs Magareng LM</b>	32,835	32,835
This relates to a civil claim and the matter is before the court. The municipality filed a notice to defend the matter through the Office of the State Attorney.		
	<b>101,814</b>	<b>101,633</b>

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 47. Related parties

Relationships  
Councillors

Accounting Officer  
Members of key management

Mayor  
Part-time Councillors  
Municipal Manager  
Chief financial Officer  
HOD Corporate Services  
HOD Technical Services

Key Management and Councillors receive and pay for services on the same terms and conditions as other ratepayers / residents.

### Related party transactions

2022 Councillors	Rates - Levied 1 Jul 2021 - 30 June 2022	Service charges - Levied 1 July 2021 - 30 June 2022	Other - Levied 1 July 2021 - 30 June 2022	Outstanding balance
J Louw (previous councillor)	-	1,953	239	12,054
T Cross (previous councillor)	395	1,638	374	14,773
DJ Tshekedi (previous councillor)	226	649	378	17,403
K Freddie (previous councillor)	-	1,698	64	4,163
KA Zalisa (previous councillor)	1,073	649	357	13,466
T Mokola (previous councillor)	-	1,398	1,463	80,354
W Potgieter (current councillor)	4,121	26,667	-	2,244
N Mase (current mayor)	4,460	8,430	67	17,642
N Mokomela (current councillor)	-	-	(8)	(8)
O Amose (current councillor)	-	1,748	8	1,756
	<b>10,275</b>	<b>44,830</b>	<b>2,942</b>	<b>163,847</b>

2022 Municipal Manager and Section 57 Employees	Rates - Levied 1 Jul 2021 - 30 June 2022	Service charges - Levied 1 July 2021 - 30 June 2022	Other - Levied 1 July 2021 - 30 June 2022	Outstanding balance
EM Moncho (Municipal Manager)	5,024	961	2	459
C Lentsoe (HOD Corporate services)	3,363	9,838	(685)	3,632
	<b>8,387</b>	<b>10,799</b>	<b>(683)</b>	<b>4,091</b>

2021 Councillors	Rates - Levied 1 Jul 2020 - 30 June 2021	Service charges - Levied 1 July 2020 - 30 June 2021	Other - Levied 1 July 2020 - 30 June 2021	Outstanding balance
N Mase	4,459	6,118	-	29,836
JD Tshekedi	677	1,874	1,071	17,349
Ak Zalisa	3,217	2,026	817	11,986
J Louw	-	5,629	566	11,062
KG Freddie	-	3,905	51	2,507
TE Cross	1,185	4,838	899	13,566
WJ Potgieter	4,120	23,805	-	3,475
T Mokola	-	4,037	4,143	77,492
	<b>13,658</b>	<b>52,232</b>	<b>7,547</b>	<b>167,273</b>

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand			2022	2021
<b>47. Related parties (continued)</b>				
2021				
Municipal Manager and Section 57 Employees	Rates - Levied 1 Jul 2020 - 30 June 2021	Service charges - Levied 1 July 2020 - 30 June 2021	Other - Levied 1 July 2020 - 30 June 2021	Outstanding balance
EM Moncho (Municipal Manager)	5,024	1,013	-	466
C Lentsoe (HOD Corporate services)	3,669	18,882	56	6,237
	<b>8,693</b>	<b>19,895</b>	<b>56</b>	<b>6,703</b>

Compensation to the accounting officer and other key management is disclosed under notes 31 and 32

### 48. Unauthorised expenditure

Opening balance as previously reported	178,455,409	120,511,833
<b>Opening balance as restated</b>	<b>178,455,409</b>	<b>120,511,833</b>
Add: Expenditure identified - current	22,535,205	57,943,576
<b>Closing balance</b>	<b>200,990,614</b>	<b>178,455,409</b>

Reconciliation of operating and capital expenditure versus actual:

Operating expenditure per vote	Adjusted budget	Actual expenditure	Variance	Unauthorised expenditure
Vote 01 - Executive & Council	11,741,041	10,758,146	(982,895)	-
Vote 02 - Office Of The Municipal Manager	1,838,752	1,838,565	(187)	-
Vote 03 - Corporate Services	13,659,830	12,037,123	(1,622,707)	-
Vote 04 - Financial Services	58,207,370	76,619,550	18,412,180	18,412,180
Vote 05 - Municipal Infrastructure	80,819,133	69,214,889	(11,604,244)	-
Vote 07 - Public Safety & Transport	10,008,813	7,123,176	(2,885,637)	-
Vote 09 - Planning & Development	3,174,226	5,312,256	2,138,030	2,138,030
	<b>179,449,165</b>	<b>182,903,705</b>	<b>3,454,540</b>	<b>20,550,210</b>
Capital expenditure per vote	Adjusted budget	Actual expenditure	Variance	Unauthorised expenditure
Vote 03 - Corporate Services	300,000	2,284,995	1,984,995	1,984,995
Vote 05 - Municipal Infrastructure	40,386,000	30,623,362	(9,762,638)	-
	<b>40,686,000</b>	<b>32,908,357</b>	<b>(7,777,643)</b>	<b>1,984,995</b>

### 49. Fruitless and wasteful expenditure

Opening balance as previously reported	14,943,934	14,091,372
<b>Opening balance as restated</b>	<b>14,943,934</b>	<b>14,091,372</b>
Current Year	4,100,702	801,711
Add: Expenditure identified - prior period	-	50,851
Written off by Council	-	-
<b>Fruitless and wasteful expenditure awaiting further action</b>	<b>19,044,636</b>	<b>14,943,934</b>

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021	
<b>49. Fruitless and wasteful expenditure (continued)</b>			
<b>Details of fruitless and wasteful expenditure - current year</b>			
	<b>Disciplinary steps taken/criminal proceedings</b>		
Interest on late payments - suppliers	Awaiting Council decision	3,153,795	-
Unauthorised debit orders - Prior year	Awaiting Council decision	-	50,851
Unauthorised debit orders - Current year	Awaiting Council decision	946,907	801,711
		<b>4,100,702</b>	<b>852,562</b>

Fruitless and wasteful expenditure is disclosed exclusive of VAT.

### 50. Irregular expenditure

Opening balance as previously reported	79,783,662	53,679,109
<b>Opening balance as restated</b>	<b>79,783,662</b>	<b>53,679,109</b>
Current Year	26,857,695	11,133,399
Add: Prior year irregular expenditure identified in current year	-	14,971,154
Written off by Council	-	-
<b>Closing balance</b>	<b>106,641,357</b>	<b>79,783,662</b>

Irregular expenditure is disclosed exclusive of VAT.

### Details of irregular expenditure for current and prior year

	<b>Disciplinary steps taken/criminal proceedings</b>		
Various contraventions of procurement transcripts	Awaiting council decision	26,857,695	26,104,553

### 51. Risk management

#### Financial risk management

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

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand

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### 51. Risk management (continued)

#### Liquidity risk

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

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

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

At June 30, 2022	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Consumer Deposits	1,034,517	-	-	-
Employee benefit obligations	6,726,028	-	-	-
Payables from exchange transactions	261,082,129	-	-	-
Unspent Grants	5,202,452	-	-	-

  

At June 30, 2021	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Consumer Deposits	1,002,568	-	-	-
Employee benefit obligation	7,106,298	-	-	-
Payables from exchange transactions	241,417,425	-	-	-
Unspent Grants	6,706,458	-	-	-

#### Credit risk

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

Credit risk consists mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

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

All rates and services are payable within 30 days from invoice date. Refer to note 5 and 7 for all balances outstanding longer than 30 days. These balances represent all debtors at year end which defaulted on their credit terms. Also refer to note 5 and 7 for balances included in receivables that were re-negotiated for the period under review.

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

#### Market risk

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

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### 51. Risk management (continued)

#### Interest rate risk

As the municipality has no significant interest-bearing assets, and therefore it is not exposed to interest rate risk.

The municipality is only exposed to interest rate risk upon the usage of their overdraft facility, which would represent an interest bearing liability at that time.

#### Foreign exchange risk

The municipality does not engage in foreign exchange transactions.

#### Price risk

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

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### 52. Financial instruments disclosure

#### Categories of financial instruments

#### 2022

##### Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	7,594,416	7,594,416
Other receivables from non-exchange transactions	-	6,204,206	6,204,206
Consumer debtors	-	-	-
Cash and cash equivalents	241,514	-	241,514
VAT receivable	-	30,911,030	30,911,030
	<b>241,514</b>	<b>44,709,652</b>	<b>44,951,166</b>

##### Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	261,082,129	261,082,129
Consumer deposits	1,034,517	1,034,517
Unspent conditional grants and receipts	5,202,452	5,202,452
	<b>267,319,098</b>	<b>267,319,098</b>

#### 2021

##### Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	9,672,913	9,672,913
Receivables from non-exchange transactions	-	4,493,314	4,493,314
Cash and cash equivalents	6,674,175	-	6,674,175
Unpaid government grants	-	5,945,108	5,945,108
	<b>6,674,175</b>	<b>20,111,335</b>	<b>26,785,510</b>

##### Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	241,417,425	241,417,425
Consumer deposits	1,002,568	1,002,568
Unspent conditional grants and receipts	6,706,458	6,706,458
	<b>249,126,451</b>	<b>249,126,451</b>

### 53. Events after the reporting date

The Accounting Officer further is not aware of any other matter or circumstance arising since the end of the financial year requiring disclosure or adjustment.



# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>54. Public contributions and donations</b>		
1% Audit fee assistance	326,348	649,039
The municipality received assistance during the period under review relating to payments made to the Auditor-General by the Northern Cape Provincial Treasury.		
<b>55. Contributed Property, Plant and Equipment</b>		
Donation of printer	-	15,000
Land transferred to municipality	4,500,000	-
Grader donated	274,000	-
Other donated assets	6,677	-
	<b>4,780,677</b>	<b>15,000</b>
<b>56. Private Public Partnerships</b>		
Council has not entered into any private public partnerships during the financial year.		
<b>57. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Opening balance	500,000	523,692
Current year subscription / fee	551,875	495,269
Amount paid - current year	(517,500)	(518,961)
Amount paid - previous years	-	-
	<b>534,375</b>	<b>500,000</b>

The previous year disclosure was adjusted to agree to supplier statement.

Balance previously reported: R218 961

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>57. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>Material losses</b>		
<b>Electricity distribution losses (kWh)</b>		
Purchased	12,212,964	13,154,840
Sold	(9,274,013)	(9,468,032)
<b>kWh Losses</b>	<b>2,938,951</b>	<b>3,686,808</b>
% Losses	24.06%	28,03
Average cost per kWh unit	1.82	1,64
Losses in Rand Value	5,354,240	6,042,591
<b>Water distribution losses (kilolitres)</b>		
Purchased	2,424,781	1,733,446
Sold	(433,012)	(500,798)
<b>Kilolitre Losses</b>	<b>1,991,769</b>	<b>1,232,648</b>
% Losses	82%	71%
Average cost per kilolitre	4.11	3,3
Losses in Rand Value	8,177,190	4,064,642
<b>Audit fees</b>		
Opening balance	3,377,599	2,596,685
Current year subscription / fee	1,326,523	2,840,914
Amount paid - current year	(370,392)	-
Amount paid - previous years	(2,563,876)	(2,060,000)
	<b>1,769,854</b>	<b>3,377,599</b>
Amounts disclosed are inclusive of VAT.		
The prior year subscription was increased by R22 042 to agree to statement from supplier.		
Amount previously disclosed: R3 301 112		
<b>PAYE and UIF and SDL</b>		
Opening balance	1,128,793	823,490
Current year subscription / fee	7,426,904	6,896,206
Amount paid - current year	(6,376,914)	(5,667,856)
Amount paid - previous years	(1,128,900)	(923,047)
	<b>1,049,883</b>	<b>1,128,793</b>

The prior year was restated to agree to the SARS statement. Refer to note 64 for more information.

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>57. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>Pension and Medical Aid Deductions</b>		
Opening balance	2,437,007	2,746,164
Current year subscription / fee	12,238,848	12,003,849
Amount paid - current year	(9,348,353)	(9,566,842)
Amount paid - previous years	(2,437,007)	(2,746,164)
	<b>2,890,495</b>	<b>2,437,007</b>
<b>VAT</b>		
VAT receivable	30,911,030	29,256,689
VAT payable	-	-
	<b>30,911,030</b>	<b>29,256,689</b>
Balance previously reported		29,207,577
Correction of error - refer to note 47		49,112
<b>Restated balance</b>		<b>29,256,689</b>

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

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

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

#### Councillors' arrear consumer accounts

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

June 30, 2022	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor J Louw (1004957) (previous councillor)	1,662	10,392	12,054
Councillor TE Cross (1006966) (previous councillor)	1,809	12,964	14,773
Councillor DJ Tshekedi (1009767) (previous councillor)	941	16,462	17,403
Councillor KG Freddie (1016017) (previous councillor)	1,314	2,850	4,164
Councillor KG Freddie (1200108) (previous councillor)	-	105	105
Councillor AK Zalisa (1016038) (previous councillor)	1,563	11,902	13,465
Councillor T Mokola (1008597) (previous councillor)	2,150	78,204	80,354
Councillor W Potgieter (1000894) (current councillor)	343	-	343
Councillor Potgieter (1000899) (current councillor)	1,901	-	1,901
Mayor N Mase (1012953) (current councillor)	2,788	3,951	6,739
Mayor N Mase (1012953) (current councillor)	-	10,904	10,904
Councillor N Mokomela (1014421) (current councillor)	(8)	-	(8)
Councillor O Amose (1016575) (current councillor)	1,056	699	1,755
	-	-	-
	<b>15,519</b>	<b>148,433</b>	<b>163,952</b>

June 30, 2021	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor N Mase (1012953)	932	1,500	2,432
Councillor N Mase (1200103)	-	27,404	27,404
Councillor JD Tshekedi (1009767)	909	16,441	17,350
Councillor J Louw (1004956)	-	-	-
Councillor J Louw (1004957)	1,533	9,529	11,062
Councillor AK Zalisa (1016038)	1,521	10,466	11,987
Councillor AK Zalisa (1015831)	-	-	-
Councillor KG Freddie (1016017)	1,201	400	1,601
Councillor KG Freddie (1200108)	-	905	905
Councillor TE Cross (1006966)	1,731	11,835	13,566
Councillor Potgieter (1000894)	343	-	343
Councillor Potgieter (1000899)	3,131	-	3,131
Councillor T Mokola (1008597)	2,080	75,412	77,492
Councillor MA Mochane (1006254)	4,928	174,012	178,940
Councillor B Mhaleni Ex-Mayor (1016037)	-	-	-
	<b>18,309</b>	<b>327,904</b>	<b>346,213</b>

#### Non-compliance with Municipal Finance Management Act and other Legislation

Non-compliance with Municipal Finance Management Act

During the current financial year the following non-compliance issues were identified:

Non-compliance with MFMA sec 65(2)(e)

Money owing by the municipality was not paid within 30 days of receiving the relevant invoice or statement from the supplier, due to cashflow challenges caused by low revenue collection rates.

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

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

Although the accounting officer has taken reasonable steps to ensure that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds as required by Section 65(2)(a) of the MFMA, there are still deficiencies.

Other Non-compliances with the MFMA

Section 9(b) of the MFMA requires that annually before the start of a financial year, then name of each bank where the municipality holds a bank account, and the type and number of each account should be submitted to the relevant provincial treasury and the Auditor-General in writing. The municipality did not adhere to this section in the current year.

The municipality did not update their website with all relevant documentation as required by Section 75(2) of the MFMA.

The municipality did not comply with MFMA Chapter 4 sub-section 15 with regards to expenditure only being incurred in terms of an approved budget.

Non-compliance with the Municipal systems Act

A credit control and debt collection policy was not fully implemented, as required by section 96(b) of the MSA.

### 58. Deviation from supply chain management regulations

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

2021/22	Amount	Single Supplier	Impractical	Emergency
July	638,023	3		
August	19,504	2		
September	13,267	1		1
October	8,027	1		
November	100,286	2	3	1
January	10,724	1		1
February	289,151	1		1
March	67,698	1	2	
April	3,643	1		
	<b>1,150,323</b>	<b>13</b>	<b>5</b>	<b>4</b>
2020/21	Amount	Single Supplier	Impractical	Emergency
August	43,188	3	0	0
September	173,721	3	0	1
October	17,381	0	2	0
November	38,002	2	0	1
December	10,700	0	0	1
February	29,720	2	1	0
March	552,129	2	1	3
April	-			
May	6,400	1	0	0
	<b>871,241</b>	<b>13</b>	<b>4</b>	<b>6</b>

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

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### 59. Covid 19 disclosure

#### COVID-19 - Background

The coronavirus outbreak has been international news since December 2019, but the South African National Institute for Communicable Diseases only confirmed the first positive case of COVID-19 in South Africa on 5 March 2020. On the 23rd of March 2020 President Cyril Ramaphosa announced the nationwide lockdown. .

#### COVID-19 - Impact on Municipality

Due to the national state of disaster, various regulatory requirements were instituted in order to ensure that the impact of the spread of the virus is limited. The impact has been devastating to the most vulnerable in our community.

Description of goods	2022	2021
Hand Sanitizers	-	64,432
Gloves		
Eye Protection Goggles		
Medical Masks		
Anti-bacteria Soap		
Gown Suits		
Chemicals		
Partitioning for the offices	-	119,559
Cloth Face Masks	-	18,265
Protective clothing		
Safety officer salaries	-	143,431
Jojo tanks		472,26
Toilets		
	-	<b>817,956</b>

#### The Covid-19 response expenditure is funded from the following sources:

Grant Funding - Disaster Management Grant	-	817,956
	-	<b>817,956</b>

### 60. Accounting by principals and agents

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

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

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

#### Compensation paid for agency activities

Commission	2,193,711	117,350
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Magereng Municipality paid 6% commission to various service providers for acting as an agent on its behalf during the financial year.

#### Agent in arrangement

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

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

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

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

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

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

#### Compensation received for agency activities

Commission	58,431	56,502
Agency services	86,523	158,716
	<u>144,954</u>	<u>215,218</u>

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

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

### 61. Statutory Receivables

In accordance with the principles of GRAP 108, Statutory receivables of the Municipality are classified as follows:

Taxes	-	-
Vat Receivable	30,911,030	29,256,689
Receivables from non-exchange transactions (current and non-current)		
Rates	71,198,570	63,165,596
Fines	31,309,412	31,245,352
<b>Total Statutory Receivables (before provision)</b>	<u>133,419,012</u>	<u>123,667,637</u>
<b>Less: Provision for Debt Impairment</b>	<u>(97,311,592)</u>	<u>(90,599,692)</u>
<b>Total Statutory Receivables (after provision)</b>	<u>36,107,420</u>	<u>33,067,945</u>

Statutory Receivables arises from the following legislation:

Taxes - Value Added Tax Act (89 of 1991)

Rates - Municipal Properties Rates Act (No 6 of 2004)

Fines - Criminal Procedures Act

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

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### 61. Statutory Receivables (continued)

Statutory receivables are initially measured at transaction value, and subsequently at cost.

For the ageing of statutory receivables past due, not impaired, please refer to note 5.

For the ageing of statutory receivables past due and impaired, please refer to note 5.

The ageing of property rates is as follows:

#### Property rates: Ageing (current and non-current)

Current (0-30 days)	1,062,724	1,286,309
31 to 60 days	1,016,864	1,204,843
61 - 90 days	955,334	1,187,750
91 days	68,163,648	59,486,694
Less: Impairment	(66,096,573)	(59,420,431)
	<u>5,101,997</u>	<u>3,745,165</u>

#### Reconciliation of provision for impairment of receivables from non-exchange transactions (current and non-current)

Balance at the beginning of the year	(90,599,692)	(81,330,068)
Contribution (to) / from allowance property rates	(4,077,688)	(6,210,440)
Contribution (to) / from the interest property rates	(2,598,457)	(2,874,664)
Contribution (to) / from allowance traffic fines	(35,755)	(184,520)
	<u>(97,311,592)</u>	<u>(90,599,692)</u>



# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

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### 62. Going concern

We draw attention to the fact that at 30 June 2022, a material uncertainty exists regarding the ability of the municipality to continue as a going concern. These factors are listed below:

1. The Provisions for rehabilitation of landfill sites and employee benefit provisions are not cash backed.
2. Unspent Grants (Previously known as Funds to be surrendered) are not fully cash backed as required.
3. The Municipality experienced cash flow problems during the year, which resulted in major creditors not being paid timeously.
4. The consumer debtors days outstanding increased to 2163 days from (2021: 1896 days)
5. Electricity distribution losses (technical and non-technical) have decreased to 24% (2021: 28%) and the water distribution losses has increased to 82% from (2021: 71%)
6. The municipality's current liabilities exceeds it's current assets by R228 930 155 (2021: R200 027 795) current ratio which is below the required norm of 1.5 - 2.

Even though the above uncertainties exist regarding the municipality's ability to continue as a going concern, the annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependant on a number of factors. The most significant of these is that the Accounting Officer continues to procure funding for the ongoing operations of the municipality.

Furthermore, the municipality has embarked on implementing strategies which will strengthen its ability to continue as a going concern. The most significant of these is that the municipality is currently implementing a system to enhance revenue collection and cashflow by improving on the debt recoverability.

The main consideration is the fact that the municipality as a government institution, would technically always remain a going concern due to the fact that a municipality has the legal constitutional authority to levy rates and taxes, and that even if the municipality experiences liquidity problems, it would always exist. The municipality will also continue to receive funding from government as is evident from the Equitable Share allocation in terms of the Division of Revenue Act.

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

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### 63. Segment information

#### General information

#### Identification of segments

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

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

#### Aggregated segments

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

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

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

<b>Reportable segment</b>	<b>Goods and/or services</b>
Executive & Council	Governing the municipality
Office Of The Municipal Manager	Head of administration
Corporate Services	Providing support functions such as Human resources to the municipality.
Financial Services	Providing support functions to the municipality.
Municipal Infrastructure	Providing basic services to the community such as water, electricity, sewerage and refuse.
Community Services	Providing other services to the community.
Public Safety & Transport	Ensuring public safety and providing services such as traffic law enforcement.
Sports, Arts, Parks, Culture	Providing cultural activities for the community.
Planning & Development	Town planning, economic development etc.

#### Segment surplus or deficit

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

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### 63. Segment information (continued)

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

##### 2022

	Executive & Council	Office Of The Municipal Manager	Corporate Services	Financial Services	Municipal Infrastructure	Public Safety & Transport	Planning & Development	Total
<b>Revenue</b>								
Revenue from non-exchange transactions	54,311,408	-	-	19,827,513	33,503,835	1,100,000	-	108,742,756
Revenue from exchange transactions	-	-	-	813,073	37,278,850	174,734	-	38,266,657
Interest revenue	-	-	-	7,763,256	1,282,110	-	-	9,045,366
<b>Total segment revenue</b>	<b>54,311,408</b>	<b>-</b>	<b>-</b>	<b>28,403,842</b>	<b>72,064,795</b>	<b>1,274,734</b>	<b>-</b>	<b>156,054,779</b>
<b>Entity's revenue</b>								<b>156,054,779</b>
<b>Expenditure</b>								
Salaries and wages	9,842,537	1,745,242	7,191,640	10,845,021	16,255,952	7,060,161	3,452,612	56,393,165
Bulk purchases	-	-	-	-	35,093,586	-	-	35,093,586
Contracted services	68,123	-	1,487,564	3,119,774	2,964,678	-	-	7,640,139
Debt impairment	-	-	-	35,390,970	-	-	-	35,390,970
Depreciation and amortisation	-	-	-	17,150,985	7,022,070	-	1,800,758	25,973,813
Finance costs	-	-	-	3,591,795	1,855,459	-	-	5,447,254
Other expenses	847,486	93,323	3,357,919	6,521,006	6,023,144	63,015	58,887	16,964,780
Gains and losses	504,041	-	-	(99,915)	-	-	-	404,126
<b>Total segment expenditure</b>	<b>11,262,187</b>	<b>1,838,565</b>	<b>12,037,123</b>	<b>76,519,636</b>	<b>69,214,889</b>	<b>7,123,176</b>	<b>5,312,257</b>	<b>183,307,833</b>
<b>Total segmental surplus/(deficit)</b>								<b>(27,253,054)</b>

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

##### 2021

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

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### 63. Segment information (continued)

	Executive & Council	Office Of The Municipal Manager	Corporate Services	Financial Services	Municipal Infrastructure	Public Safety & Transport	Planning & Development	Total
<b>Revenue</b>								
Revenue from non-exchange transactions	57,690,000	-	-	15,247,146	67,243,957	950,000	-	141,131,103
Revenue from exchange transactions	-	-	-	273,338	33,403,642	195,188	-	33,872,168
Interest revenue	-	-	-	11,394,230	3,115,419	-	-	14,509,649
<b>Total segment revenue</b>	<b>57,690,000</b>	<b>-</b>	<b>-</b>	<b>26,914,714</b>	<b>103,763,018</b>	<b>1,145,188</b>	<b>-</b>	<b>189,512,920</b>
<b>Entity's revenue</b>								<b>189,512,920</b>
<b>Expenditure</b>								
Salaries and wages	7,529,647	2,434,181	8,440,811	9,763,750	13,372,301	8,943,395	3,205,502	53,689,587
Bad debts written off	-	-	-	139,925	-	-	-	139,925
Bulk purchases	-	-	-	-	27,936,591	-	-	27,936,591
Contracted services	52,633	-	432,909	3,889,550	-	517	-	4,375,609
Debt impairment	-	-	-	36,857,296	-	-	-	36,857,296
Depreciation and amortisation	935,133	-	-	29,496,273	1,629,062	-	-	32,060,468
Finance costs	-	-	-	3,059,862	1,258,664	-	-	4,318,526
Other expenses	1,731,573	129,140	2,868,313	6,708,096	4,529,387	531,510	55,265	16,553,284
Gains and losses	122,941	-	-	2,420,094	-	-	-	2,543,035
<b>Total segment expenditure</b>	<b>10,371,927</b>	<b>2,563,321</b>	<b>11,742,033</b>	<b>92,334,846</b>	<b>48,726,005</b>	<b>9,475,422</b>	<b>3,260,767</b>	<b>178,474,321</b>
<b>Total segmental surplus/(deficit)</b>								<b>11,038,599</b>

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

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Figures in Rand	2022	2021
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### 63. Segment information (continued)

#### Information about geographical areas

The municipality's operations are in the Warrenton area.

The municipality does not regularly review nor report on the results of the different areas within Warrenton, therefore there are no reportable segments relating to geography.

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

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### 64. Prior period errors

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

1. The municipality investigated uncleared suspense accounts. The Sundry payables opening balance was derecognised in accordance with GRAP 3.44. The correction results in the decrease in Payables from exchange transactions by R508 323 and the increase in Opening Accumulated Surplus by R508 323.

2. The municipality investigated uncleared suspense accounts. The Sundry receivables opening balance was derecognised in accordance with GRAP 3.44. The correction results in the decrease in Receivables from Exchange transactions by R3 578 031 and the decrease in Opening Accumulated Surplus by R3 578 031. Furthermore in 2021, duplicate prepaid electricity receipts of R517 783 were identified in the suspense accounts. The correction results in the decrease of Service charges - Electricity by R517 783 and the decrease in Receivables from non Exchange transactions by the same amount.

3. Capital projects completed in 2021 were not transferred to the asset register and depreciated. The correction of this error results in the decrease in Work in Progress by R 27 861 050 and the increase in Infrastructure Cost by the same amount. Accumulated depreciation increases by R 1 629 062 and Depreciation expense increases by the same amount. The net result being an decrease in Property, plant and equipment by 1 629 062 and increase in Depreciation by the same amount.

4. The SARS PAYE control account was reconciled and a difference of R99 660 between the SARS statement and salary control account was identified. Since the correction predates 1 July 2020, the correction results in the decrease in Payables from exchange by R99 660 and increase in Opening Accumulated surplus by the same amount.

5. A significant debtor was incorrectly charged for electricity and interest in prior years. The correction to the account results in the decrease in debt impairment by R958 087 and the increase in Interest from exchange transactions by the same amount. Since the debtor was fully impaired, the net balance of Receivables from exchange transactions remains unchanged. The gross balance decreased by R12 804 267 and the impairment balance decreased by the same amount.

6. Certain invoices were not recorded in 2021, resulting in the increase in VAT receivable by R49 112, the increase in Payables from Exchange transactions by R376 628, the increase in Bulk purchases by R24 256 and the increase in Contracted services by R303 261.

7. Municipal Eskom accounts for municipal electricity was reclassified from Bulk purchases to Operational costs. The correction results in the decrease in Bulk purchases by R913 552 and the increase in Operational cost by the same amount.

8. Expenditure incurred on the RBIG grant was incurred in 2021, however the related revenue was not recognised. The correction of error results in the increase in Unpaid grants by R5 817 267 and the increase in Government grants and subsidies by the same amount.

### Statement of financial position

#### 2021

	As previously reported	Correction of error	Restated
Payables from exchange transactions	(241,648,779)	231,355	(241,417,424)
Opening accumulated surplus	(142,054,727)	2,970,048	(139,084,679)
Receivables from non-exchange transactions	8,589,128	(4,095,814)	4,493,314
Property, plant and equipment	347,790,304	(1,629,062)	346,161,242
VAT receivable	29,207,577	49,112	29,256,689
Unpaid grants	127,842	5,817,267	5,945,109
	<b>2,011,345</b>	<b>3,342,906</b>	<b>5,354,251</b>

### Statement of financial performance

# Magareng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021	
<b>64. Prior period errors (continued)</b>			
<b>2021</b>			
	As previously reported	Correction of error	Restated
Depreciation and amortisation	30,431,406	1,629,062	32,060,468
Service charges	(33,762,710)	517,783	(33,244,927)
Interest earned - Exchange transactions	(12,518,614)	958,087	(11,560,527)
Debt Impairment	37,815,383	(958,087)	36,857,296
Bulk purchases	28,825,887	(889,296)	27,936,591
Contracted services	4,072,350	303,260	4,375,610
Operational costs	9,646,719	913,552	10,560,271
Government grants and subsidies	(122,671,095)	(5,817,267)	(128,488,362)
<b>Surplus for the year</b>	<b>(58,160,674)</b>	<b>(3,342,906)</b>	<b>(61,503,580)</b>

### 65. Change in estimate

#### Provisions

The estimate relating to the provision for the rehabilitation of landfill sites, as disclosed in note 19, was revised in the current year by an amount of R2 345 471.

The change in estimate is due to the larger area contaminated and increases in unit prices.

The liability's value at decommission date (2032) has increased from R39 342 228 to R52 982 358.