Xhariep District Municipality
(Registration number DC16)
Annual Financial Statements
for the year ended 30 June 2025

## General Information

| | |
|---|---|
| **Country of incorporation and domicile** | South Africa |
| **Legal form of entity** | South African Category C Municipality (District Municipality)as defined by the Municipal Structures Act. (Act no 117 of 1998) |
| **Nature of business and principal activities** | Xhariep District Municipality is a district municipality performing the function as set out in the constitution(Act no 105 of 1996).<br><br>Xhariep District Municipality includes the municipal areas of Mohokare Local Municipality, Letsemeng Local Municipality and Kopanong Local Municipality. |
| **Mayoral committee** | |
| Executive Mayor | Cllr IN Mehlomakulu |
| Speaker | Cllr AM Shasha |
| MMC: Corporate Services | Cllr MV Malgas |
| MMC: Planning and Social Development | Cllr TD Mochechepa Resigned 01 June 2025 |
| MMC: Finance | Cllr MA Lebaka |
| | Cllr MA Adoons |
| Councillors | Cllr RW Van Wyk |
| | Cllr AJ Janse Van Rensburg |
| | Cllr IS Riddle |
| | Cllrs TI Phatsoane |
| | Cllr M Lekoenea |
| | Cllr MG Mokheseng |
| | Cllr MA Molai |
| | Cllr MM Potgieter |
| | Cllr AN November |
| | Cllr PM Dibe (joined 21/08/24) |
| **Grading of local authority** | 3 |
| **Municipal ManagerAccounting officer details** | Ms LY Moletsane |
| **Chief Finance Officer (CFO)** | Mr M.M Tamasane (Started 19 November 2024)<br>Mr T.S Matsiliso (Acting) ended 15 November 2024 |
| **Registered office** | 20 Louw Street<br>Trompsburg<br>9913 |
| **Business address** | 20 Louw Street<br>Trompsburg<br>9913 |
| **Postal address** | P.O Box 136<br>Trompsburg<br>9913 |
| **Bankers** | ABSA Bank Limited |
| **Auditors** | Auditor-General of South Africa |

# Index

The reports and statements set out below comprise the annual financial statements presented to the Auditor General of South Africa:



**Abbreviations used:**

| | |
|---|---|
| COIDA | Compensation for Occupational Injuries and Diseases Act |
| GRAP | Generally Recognised Accounting Practise |
| MIG | Municipal Infrastructure Grant |
| INEP | Intergrated National Electrification Programme |
| DMRE | Department of Mineral Resources and Energy |
| MFMA | Municipal Finance Management Act |
| mSCOA | Municipal Standard Chart of Accounts |

# Accounting Officer's Responsibilities and Approval

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

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

The Annual Financial Statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

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

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

The Accounting Officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2026 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is largely dependent on the government for continued funding of operations. The Annual Financial Statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the Accounting Officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's Annual Financial Statements.

The Annual Financial Statements set out from page 5, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2025 and were signed on its behalf by:

**Ms LY Moletsane**
**Accounting Officer**

# Accounting Officer's Report

The Accounting Officer submits her report for the year ended 30 June 2025.

## 1. Review of activities

**Main business and operations**

The municipality is engaged in providing services 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 comments.

## 2. Going concern

We draw attention to the fact that at 30 June 2025, the municipality had an accumulated deficit of (21 476 535) and that the municipality's total liabilities exceed its total assets by (21 476 535).

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.

## 3. Subsequent events

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

## 4. Accounting policies

The Annual Financial Statements are prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP), including any interpretations of such statements issued by the Accounting Standards Board as the prescribed framework by National Treasury.

## 5. Accounting officer details

The Accounting Officer of the municipality during the year and to the date of this report is as follows:

| Name | Nationality |
|---|---|
| LY Moletsane | South Africa |

## 6. Bankers

The operating account of the municipality remained held with ABSA.

## 7. Auditors

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

The Annual Financial Statements have been prepared on the going concern basis and were approved by the Accounting Officer on 31 August 2025 and were signed by:

**Ms LY Moletsane**
**Accounting Officer**

## Statement of Financial Position as at 30 June 2025

| Figures in Rand | Note(s) | 2025 | 2024 Restated* |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| VAT receivable from exchange transactions- statutory receivable | 2 | 3 692 942 | 3 525 465 |
| Trade and Other receivables | 3 | 1 999 369 | 9 606 354 |
| Cash and cash equivalents | 4 | 15 633 621 | 307 532 |
| | | **21 325 932** | **13 439 351** |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 5 | 7 531 077 | 8 398 382 |
| Intangible assets | 6 | - | 1 168 |
| | | **7 531 077** | **8 399 550** |
| **Total Assets** | | **28 857 009** | **21 838 901** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Payables from exchange transactions | 7 | 24 225 100 | 21 491 346 |
| Payables from non-exchange transactions | 8 | 23 345 508 | 11 990 567 |
| Employee benefit obligation | 9 | 104 000 | 492 309 |
| Unspent conditional grants and receipts | 10 | 7 933 | 1 136 |
| | | **47 682 541** | **33 975 358** |
| **Non-Current Liabilities** | | | |
| Employee benefit obligation | 9 | 2 651 000 | 2 503 847 |
| **Total Liabilities** | | **50 333 541** | **36 479 205** |
| **Net liabilities** | | **(21 476 532)** | **(14 640 304)** |
| Accumulated deficit | | (21 476 535) | (14 640 304) |
| **Total Net liabilities** | | **(21 476 535)** | **(14 640 304)** |

* See Note 44

## Statement of Financial Performance

| Figures in Rand | Note(s) | 2025 | 2024 Restated* |
|---|---|---|---|
| **REVENUE** | | | |
| **Revenue from exchange transactions** | | | |
| Rental of facilities | 11 | 722 775 | 695 911 |
| Interest received (debtors) | 12 | 1 347 576 | 1 084 629 |
| Other income | 13 | 349 656 | 123 918 |
| Interest received (bank/ investments) | 14 | 1 551 138 | 1 413 905 |
| Actuarial gains | 9 | 359 760 | 148 268 |
| **Total revenue from exchange transactions** | | **4 330 905** | **3 466 631** |
| **Revenue from non-exchange transactions** | | | |
| Contract revenue- INEP | 15 | - | 23 972 003 |
| Debt assistance (Non exchange) | 16 | 2 191 136 | 609 401 |
| **Transfer revenue** | | | |
| Government grants & subsidies | 17 | 62 133 203 | 60 190 905 |
| COGTA assistance grant | 18 | - | 11 510 791 |
| LG SETA Income | | 254 564 | 619 274 |
| **Total revenue from non-exchange transactions** | | **64 578 903** | **96 902 374** |
| **Total revenue** | | **68 909 808** | **100 369 005** |
| **EXPENDITURE** | | | |
| Employee related costs | 19 | (48 901 779) | (47 477 566) |
| Remuneration of councillors | 20 | (5 361 241) | (5 666 247) |
| Construction costs | 21 | - | (16 619 033) |
| Depreciation and amortisation | 22 | (1 090 890) | (1 123 491) |
| Finance costs | 23 | (544 438) | (630 426) |
| Debt Impairment | 25 | (2 779 809) | (1 859 413) |
| Contracted services | 26 | (3 065 513) | (3 394 495) |
| Transfers and Subsidies | 27 | - | (18 902 096) |
| Loss on disposal of assets and liabilities | 5 | (78 772) | (139 054) |
| General Expenses | 28 | (13 923 597) | (11 750 015) |
| **Total expenditure** | | **(75 746 039)** | **(107 561 836)** |
| **Deficit for the year** | | **(6 836 231)** | **(7 192 831)** |

* See Note 44

# Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus / deficit | Total net assets |
|---|---|---|
| **Balance at 01 July 2023** | **(7 447 473)** | **(7 447 473)** |
| Changes in net assets | | |
| Deficit for the year | (7 192 831) | (7 192 831) |
| Total changes | (7 192 831) | (7 192 831) |
| Opening balance as previously reported | (12 878 393) | (12 878 393) |
| Adjustments | | |
| Prior year adjustments 44 | (1 761 911) | (1 761 911) |
| **Balance at 01 July 2024** | **(14 640 304)** | **(14 640 304)** |
| Changes in net assets | | |
| Deficit for the year | (6 836 231) | (6 836 231) |
| Total changes | (6 836 231) | (6 836 231) |
| **Balance at 30 June 2025** | **(21 476 535)** | **(21 476 535)** |
| Note(s) | | |

* See Note 44

## Cash Flow Statement

| Figures in Rand | Note(s) | 2025 | 2024 Restated* |
| --- | --- | --- | --- |
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Sale of goods and services | | 231 978 | 1 429 230 |
| Grants and subsidies | | 69 731 355 | 84 783 277 |
| Interest income | | 1 551 138 | 2 646 802 |
| | | 71 514 471 | 88 859 309 |
| **Payments** | | | |
| Employee costs | | (52 985 958) | (54 611 691) |
| Suppliers | | (2 731 951) | (33 589 426) |
| Finance costs | | (169 284) | (544 088) |
| | | (55 887 193) | (88 745 205) |
| **Net cash flows from operating activities** | 30 | **15 627 278** | **114 104** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 5 | (301 189) | (200 676) |
| **Net increase/(decrease) in cash and cash equivalents** | | **15 326 089** | **(86 572)** |
| Cash and cash equivalents at the beginning of the year | | 307 532 | 394 104 |
| **Cash and cash equivalents at the end of the year** | 4 | **15 633 621** | **307 532** |

* See Note 44

# Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Performance** | | | | | | |
| **Revenue** | | | | | | |
| **Revenue from exchange transactions** | | | | | | |
| Rental of facilities | 755 000 | 76 000 | **831 000** | 722 775 | **(108 225)** | I |
| Interest received (debtors) | 5 000 | 6 000 | **11 000** | 1 347 576 | **1 336 576** | ii |
| Other income | 318 000 | 76 000 | **394 000** | 349 656 | **(44 344)** | iii |
| Interest received - (bank/investment) | 950 000 | 882 000 | **1 832 000** | 1 551 138 | **(280 862)** | iv |
| **Total revenue from exchange transactions** | **2 028 000** | **1 040 000** | **3 068 000** | **3 971 145** | **903 145** | |
| **Revenue from non-exchange transactions** | | | | | | |
| Debt assistance | - | - | **-** | 2 191 136 | **2 191 136** | v |
| **Transfer revenue** | | | | | | |
| Government grants & subsidies | 62 140 000 | 300 000 | **62 440 000** | 62 133 203 | **(306 797)** | |
| LG SETA Income | - | - | **-** | 254 564 | **254 564** | vi |
| **Total revenue from non-exchange transactions** | **62 140 000** | **300 000** | **62 440 000** | **64 578 903** | **2 138 903** | |
| **Total revenue** | **64 168 000** | **1 340 000** | **65 508 000** | **68 550 048** | **3 042 048** | |
| **Expenditure** | | | | | | |
| Employee related costs | (51 023 000) | 3 130 000 | **(47 893 000)** | (48 901 779) | **(1 008 779)** | |
| Remuneration of councillors | (4 892 000) | (448 000) | **(5 340 000)** | (5 361 241) | **(21 241)** | |
| Depreciation and amortisation | (500 000) | - | **(500 000)** | (1 090 890) | **(590 890)** | vii |
| Finance costs | (50 000) | - | **(50 000)** | (544 438) | **(494 438)** | viii |
| Debt Impairment | - | - | **-** | (2 779 809) | **(2 779 809)** | ix |
| Contracted services | (4 188 000) | (3 160 000) | **(7 348 000)** | (3 065 513) | **4 282 487** | x |
| Transfers and Subsidies | (62 000) | - | **(62 000)** | - | **62 000** | xi |
| General Expenses | (3 198 000) | (1 046 000) | **(4 244 000)** | (13 923 597) | **(9 679 597)** | xii |
| **Total expenditure** | **(63 913 000)** | **(1 524 000)** | **(65 437 000)** | **(75 667 267)** | **(10 230 267)** | |
| **Operating surplus/(deficit)** | **255 000** | **(184 000)** | **71 000** | **(7 117 219)** | **(7 188 219)** | |
| Loss on disposal of assets and liabilities | - | - | **-** | (78 772) | **(78 772)** | xiii |
| Actuarial gains/losses | - | - | **-** | 359 760 | **359 760** | xiv |
| | **-** | **-** | **-** | **280 988** | **280 988** | |
| **Surplus/ (Deficit)** | **255 000** | **(184 000)** | **71 000** | **(6 836 231)** | **(6 907 231)** | |
| **Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement** | **255 000** | **(184 000)** | **71 000** | **(6 836 231)** | **(6 907 231)** | |

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual |
|---|---|---|---|---|---|
| **Statement of Financial Position** | | | | | |
| **Assets** | | | | | |
| **Current Assets** | | | | | |
| VAT receivable from exchange transactions- statutory receivables | 980 000 | 696 000 | **1 676 000** | 3 692 942 | **2 016 942** |
| Trade and other receivables | 5 000 | 6 000 | **11 000** | 1 999 369 | **1 988 369** |
| Cash and cash equivalents | (269 000) | (1 048 000) | **(1 317 000)** | 15 633 621 | **16 950 621** |
| | **716 000** | **(346 000)** | **370 000** | **21 325 932** | **20 955 932** |
| **Non-Current Assets** | | | | | |
| Property, plant and equipment | (300 000) | 180 000 | **(120 000)** | 7 531 077 | **7 651 077** |
| **Total Assets** | **416 000** | **(166 000)** | **250 000** | **28 857 009** | **28 607 009** |
| **Liabilities** | | | | | |
| **Current Liabilities** | | | | | |
| Payables from exchange transactions | - | - | **-** | 24 225 100 | **24 225 100** |
| Payable from non exchange | - | - | **-** | 23 345 508 | **23 345 508** |
| VAT payable | 161 000 | 19 000 | **180 000** | - | **(180 000)** |
| Employee benefit obligation | - | - | **-** | 104 000 | **104 000** |
| Unspent conditional grants and receipts | - | - | **-** | 7 933 | **7 933** |
| | **161 000** | **19 000** | **180 000** | **47 682 541** | **47 502 541** |
| **Non-Current Liabilities** | | | | | |
| Employee benefit obligation | - | - | **-** | 2 651 000 | **2 651 000** |
| **Total Liabilities** | **161 000** | **19 000** | **180 000** | **50 333 541** | **50 153 541** |
| **Net liabilities** | **255 000** | **(185 000)** | **70 000** | **(21 476 532)** | **(21 546 532)** |
| **Net liabilities** | | | | | |
| **Reserves** | | | | | |
| Accumulated deficit | 255 000 | (185 000) | **70 000** | (21 476 532) | **(21 546 532)** |

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual |
|---|---|---|---|---|---|
| **Cash Flow Statement** | | | | | |
| **Cash flows from operating activities** | | | | | |
| **Receipts** | | | | | |
| Sale of goods and services | 2 184 000 | 1 052 000 | **3 236 000** | 231 978 | **(3 004 022)** |
| Grant and subsidies | 62 140 000 | 300 000 | **62 440 000** | 69 731 355 | **7 291 355** |
| Interest income | - | - | **-** | 1 551 138 | **1 551 138** |
| | **64 324 000** | **1 352 000** | **65 676 000** | **71 514 471** | **5 838 471** |
| **Payments** | | | | | |
| Employee costs | - | - | **-** | (52 985 958) | **(52 985 958)** |
| Suppliers | - | - | **-** | (2 731 951) | **(2 731 951)** |
| Finance costs | (50 000) | - | **(50 000)** | (169 284) | **(119 284)** |
| Transfers and subsidies | (62 000) | - | **(62 000)** | - | **62 000** |
| Employee costs and suppliers | (64 251 000) | (2 153 000) | **(66 404 000)** | - | **66 404 000** |
| | **(64 363 000)** | **(2 153 000)** | **(66 516 000)** | **(55 887 193)** | **10 628 807** |
| **Net cash flows from operating activities** | **(39 000)** | **(801 000)** | **(840 000)** | **15 627 278** | **16 467 278** |
| **Cash flows from investing activities** | | | | | |
| Purchase of property, plant and equipment | (230 000) | (207 000) | **(437 000)** | (301 189) | **135 811** |
| **Cash flows from financing activities** | | | | | |
| Finance lease payments | - | - | **-** | - | **-** |
| Net increase/(decrease) in cash and cash equivalents | (269 000) | (1 008 000) | **(1 277 000)** | 15 326 089 | **16 603 089** |
| Cash and cash equivalents at the beginning of the year | - | - | **-** | 307 532 | **307 532** |
| **Cash and cash equivalents at the end of the year** | **(269 000)** | **(1 008 000)** | **(1 277 000)** | **15 633 621** | **16 910 621** |

# Accounting Policies

| Figures in Rand | 2025 | 2024 |
| --- | --- | --- |

### 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.

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.

### 1.1 Presentation currency

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

### 1.2 Going concern assumption

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

### 1.3 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.

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

### 1.4 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 entity 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 municipal entity 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.

# Accounting Policies

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

**Provisions**

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

**Effective interest rate**

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

**Useful lives and residual values**

The municipality's management determine the useful lives and related depreciation changes for property, plant and equipment.
This estimate is based on industry norms. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

**Long Service Award**

The present value of the long service bonus 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, future inflation, salary inflation, net discount rate and assumed retirement age.

Any changes in these assumptions will impact on the carrying amount of long service bonus obligations.

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

**Leave and Bonus Accrual**

The municipality used the leave and bonus paid date to estimate the provisions respectively.

### 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 entity; 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.

# Accounting Policies

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

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

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

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

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

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

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

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

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

| Item | Depreciation method | Average useful life |
|---|---|---|
| Buildings | Straight-line | 25-30 years |
| Security system | Straight-line | 5-10 years |
| Plant and machinery | Straight-line | 3-15 years |
| Furniture and fixtures | Straight-line | 3-15 years |
| Motor vehicles | Straight-line | 4-7 years |
| Office equipment | Straight-line | 5-10 years |
| IT equipment | Straight-line | 3-10 years |
| Finance leased assets | Straight-line | The shorter of asset's useful life or the lease term |

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

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

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

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

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

# Accounting Policies

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

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

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 5).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 5).

No item of property, plant and equipment are pledged as security for liabilities.

### 1.6 Intangible assets

Intangible assets are non current asset that are held for use in the production or supply of goods or services, rental to other or for administrative purposes and are expected to be used during more than one period.

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.

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.

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

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

## Accounting Policies

### 1.6 Intangible assets (continued)

The entity discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 6).

### 1.7 Financial instruments

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

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

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

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

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

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

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

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- 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, a municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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

A financial asset is:

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

## Accounting Policies

### 1.7 Financial instruments (continued)

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 municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

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

Liquidity risk is the risk encountered by a municipality 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 a municipality after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of a municipality'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 a municipality.

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 municipality 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 municipality 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;

# Accounting Policies

### 1.7 Financial instruments (continued)

- 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.

# Accounting Policies

### 1.7 Financial instruments (continued)

**Classification**

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

| Class | Category |
|---|---|
| Cash and cash equivalents | Financial asset measured at amortised cost |
| Trade and other receivables | Financial asset measured at amortised cost |
| VAT receivable | Financial asset measured at amortised cost |

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

| Class | Category |
|---|---|
| Trade and other payables | Financial liability measured at amortised cost |
| Payables from non-exchange transactions | Financial liability measured at amortised cost |
| Unspent conditional grants | Financial liability measured at amortised cost |

The municipality classifies financial assets and financial liabilities into the following categories:

- Held to maturity investments.
- Loans and receivables.
- Available for sale financial assets.
- Financial liabilities measured at amortised.

Classification depends on the purpose for which the financial instruments were obtained/ incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category:

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

The municipality classifies financial instruments or their component parts on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value except for equity investment for which a fair value is not determinable, which are measured at cost and are classified as available-for sale financial assets.

For financial instruments which are at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Subsequent measurement of financial assets and financial liabilities

Loans and receivable are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost. Using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This equity investment for which a fair value is not determinable, which is measured at cost less accumulated impairment losses.

# Accounting Policies

### 1.7 Financial instruments (continued)

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets is calculated using the effective interest method is recognised as surplus or deficit as part of other income. Dividends or similar distribution received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Changes in fair value of available-for sale financial asset denominated in foreign currency are analysed between translation difference resulting from changes in amortised cost and other changes in carrying amount. Translation differences on monetary items are recognised in surplus or deficit while translation difference on non-monetary items are recognised in equity.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

**Fair value measurement considerations**

The fair value of a quoted investment is based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These includes the use of recent arm's length transaction, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models making maximum use of market inputs and relying as little as possible on municipality-specific inputs.

**Gains and losses**

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

A gain  or loss on a financial asset or financial liability classified as a fair value through surplus or deficit is recognised in surplus or deficit.

A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net asset, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net  asset is recognised in surplus or deficit: and

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

**Impairment of financial assets**

At each of the reporting period the municipality assess all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial asset has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payment are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged declined in   the fair value of the security below its cost is considered an indicator or impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit  is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised as surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised as surplus or deficit except for equity investments classified as available-for- sale.

# Accounting Policies

### 1.7 Financial instruments (continued)

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

**Receivable from exchange transactions**

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised as surplus or deficit within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

**Payable from exchange transactions**

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

**Payables from non-exchange transactions**

Payables from non-exchange are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand (including petty cash) and cash with banks (including call deposits).Cash equivalents are short-term highly liquid investments, readily convertible to a known amount of cash ,that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loan and receivable.

**Bank overdraft and borrowings**

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

**Investments**

Investments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that categorisation are met, or as loans and receivables, and are measured at amortised cost. Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

**Held to maturity**

These financial assets are initially measured at fair value plus direct transaction costs.

# Accounting Policies

### 1.7 Financial instruments (continued)

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

**Financial liabilities**

Financial liabilities are classified according to the substance of contractual agreements entered into.

Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method. Financial liabilities consist of trade payables and borrowings. They are categorized as financial liabilities held at amortised cost, and are subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

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

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

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

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

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

### 1.8 Leased assets

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.

## Accounting Policies

### 1.8 Leased assets (continued)

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

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

Property, plant and equipment or intangible assets, subject to finance lease agreements, are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as finance lease liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

# Accounting Policies

### 1.9 Construction contracts and receivables

The municipality received a grant from National Treasury towards the Integrated National Electrification Programme for the 2023/24 financial year as publicized in the Division of Revenue Act. Xhariep District Municipality implemented infrastructure projects on behalf of the Mohokare Local Municipality in line with the terms and conditions as outlined by the National Transferring Officer through Re-Gazetting of the allocation of the funds to the Xhariep District Municipality as outline in the suspensive condition of the agreement.

Grants received to implement the Integrated National Electrification Programme are recognised as contract revenue.

Contract revenue comprises:
a) the initial amount of revenue agreed in the contract; and
b) variations in contract work, claims and incentive payments to the extent that:
c) it is probable that they will result in revenue; and
d) they are capable of being reliably measured.
Contract revenue is measured at the fair value of the consideration received or receivable

When the outcome of a construction contract can be estimated reliably, contract revenue is recognised as revenue by reference to the stage of completion of the contract activity at the reporting date. The stage of completion is assessed with reference to a review of work performed. Otherwise, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

The outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:
a) total contract revenue, if any, can be measured reliably;
b) it is probable that the economic benefits or service potential associated with the contract will flow to the entity
c) such other costs as are specifically chargeable to the customer under the terms of the contract.
Contract costs include the costs attributable to a contract for the period from the date of securing the contract to the final completion of the contract. Costs that cannot be attributed to contract activity or cannot be allocated to a contract are excluded from the costs of a construction contract.

Construction costs include:
a) general administration costs for which reimbursement is not specified in the contract;
b) selling costs;
c) research and development costs for which reimbursement is not specified in the contract; and
d) depreciation of idle plant and equipment that is not used on a particular contract.
As with contract revenue, contract costs are recognised as expenses when the outcome of a construction contract can be estimated reliably, by reference to the stage of completion of the contract activity at the reporting date.

The cost basis will be utilised to compute the percentage of completion of the contract. The percentage of completion arises from the cost incurred in the current period over the estimated total cost.

### 1.10 Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

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

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

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

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

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

## Accounting Policies

### 1.11 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

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

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

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

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

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

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

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

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

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

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

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

Useful life is either:

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

# Accounting Policies

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

**Designation**

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

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

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

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

**Identification**

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

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

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

**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:

**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.

# Accounting Policies

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

**Reversal of an impairment loss**

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

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

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

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

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

**Redesignation**

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

### 1.13 Employee benefits

**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 municipality 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 municipality 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 municipality 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.

### 1.13 Employee benefits (continued)

**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 municipality 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.

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

The municipality contribution to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in surplus or deficit in the period in which the service is rendered by the relevant employees unless another standard requires or permits the inclusion of contribution in the cost of an asset. Prepaid contribution are recognised as an asset to the extent that a cash refund or a reduction in future payment is available. Payments to defined contribution retirement benefit plan are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

For defined benefit plans the cost of providing the benefits is determined using the projected credit method

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuations performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees.

Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

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 presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan

# Accounting Policies

### 1.14 Provisions and contingencies

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficit.

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 31.

### 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.

# Accounting Policies

### 1.16 Revenue from exchange transactions

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

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

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

**Measurement**

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

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

**Sale of goods**

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

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

**Rendering of services**

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

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

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

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

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

# Accounting Policies

### 1.16 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, in the surplus or deficit using the effective interest rate method.

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

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

### 1.17 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

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.

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**

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.

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

**Rates, including collection charges and penalties interest**

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

**Government grants**

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,

- the amount of the revenue can be measured reliably, and

- to the extent that there has been compliance with any restrictions associated with the grant.

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

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

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

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

**Other grants and donations**

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

### 1.18 Investment income

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

### 1.19 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.

### 1.20 Comparative figures

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

### 1.21 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. Detailed disclosure were in the notes to the financial statement as required by the MFMA.

### 1.22 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 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. Detailed disclosure were in the notes to the financial statement as required by the MFMA.

### 1.23 Irregular expenditure

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

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

# Accounting Policies

### 1.23 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

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 municipality'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. Detailed disclosure were made in the notes to the financial statement as required by the MFMA.

### 1.24 Segment information

A segment is an activity of an entity:

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

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

### 1.25 Budget information

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

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

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

The approved budget covers the fiscal period from 2024/07/01 to 2025/06/30.

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

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

### 1.25 Budget information (continued)

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

### 1.26 Related parties

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

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

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

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

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

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

Only transaction with related parties not at arm's length or not in ordinary course of business are disclosed.

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

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

### 1.27 Events after reporting date

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

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

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

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

### 1.28 Use of Estimates

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

### 1.29 Expenditure

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets.

An expense is recognised in the municipality's Statement of Financial Performance when, and only when, the following criteria are satisfied:

The cost or value may involve estimation. Where an item possesses the essential characteristics of an expense but fails to meet the criteria for recognition it is disclosed in the note; and All expenditure has been dealt with in terms of the above definition and recognition criteria.

Where an outflow of economic benefits does not result in future benefits, it is disclosed as fruitless and wasteful expenditure.The point at which an expense is recognised is dependent on the nature of the transaction or other event that gives rise to the expense. Where future economic benefits are consumed immediately or soon after acquisition, for example, repairs and maintenance expenditure, bulk purchases and general expenses, the expense is recognised in the reporting period in which the acquisition of the future economic benefit occurs. Where future economic benefits are expected to be consumed over several reporting periods e.g. non-current assets, expenses (depreciation) is allocated systematically to the reporting period during which the future economic benefits are expected to be consumed; where expenditure produces no future economic benefits e.g. fines paid, an expense is recognised immediately; and where a liability is incurred without the recognition of an asset an expense is recognised simultaneously with the recognition of the liability.

Generally, expenses are accounted for on an accrual basis at fair value. Under the accrual basis of accounting expenses are recognised when incurred usually when goods are received or services are consumed. This may not be when the goods or services are actually paid for. 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.

Major expenses include:
Decreases in fair values of financial instruments classified as held at fair value.
Losses on the disposal of non-current assets are reported separately from expenses in the Statement of Financial Performance.
Repairs and maintenance - inclusive of repairs and maintenance to buildings, motor vehicles;
Contracted services – included are debt collection costs, data cleansing costs, service level agreement costs, property Asset register verification costs, software support costs and security services costs.
Transfers and grants which relate to expenditure pertaining to free basic services; and
General expenses which constitute several expense items which are not individually significant.
Employee cost - relating to cost associated with employee contracts.
Transfers and subsidies- relating to funds which are transfered to other municipalities after being received from treasury on behalf of the other municipalities.
Depreciation and amortisation - Cost associated with the amortisation of property, plant and equipment.
Remuneration of councillors- relating to cost associated with councillors.
Finance costs- relating to interest charged on overdue accounts.
Debt impairment- relates to the write offs of debtors.

# Notes to the Annual Financial Statements

| Figures in Rand | 2025 | 2024 |
| --- | --- | --- |

# Notes to the Annual Financial Statements

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

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 01 July 2025 or later periods:
GRAP 104 (as revised): Finance Instruments
Following the global finance crisis, a number of concerns were raised about the accounting for financial instruments.
This included that:
- information on credit losses and defaults on financial assets received too late to enable proper decision-making.
- using fair value in certain instances was inappropriate, and
- some of the existing accounting requirements were seen as too rules based.

The revision better align the standards of GRAP with recent internation development. The amendments resul in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most signficant changes to the standard affect:
- Financial gurantee contracts issued;
- Loan commitments issued;
- Classification of financial assets;
- Amortised cost of financial assets
- Impairment of financial assets; and
- Disclosure

The effective date of the revisions is for years beginning on or after 01 April 2025.
The municipality expects to adopt the revision for the first time in the 2025/2026 annual financial statements.
The municipality of this standard is currently being assessed, however, the impact is low.

### 1.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the entity's accounting periods beginning on or after 01 July 2025 or later periods but are not relevant to its operations:

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
|---|---|---|
| Amendments to GRAP 1 | To be determined by minister of finance. | Low |
| Amendments to GRAP 103 | To be determined by minister of finance. | Low |
| Amendments to GRAP 104 | 1 April 2025 | Low |
| Amendments to GRAP 105 | To be determined by minister of finance. | Low |
| Amendments to GRAP 106 | To be determined by minister of finance. | Low |
| Amendments to GRAP 107 | To be determined by minister of finance. | Low |

# Notes to the Annual Financial Statements

| Figures in Rand | 2025 | 2024 |
|---|---|---|

## 2. VAT receivable from exchange transactions

| | | |
|---|---|---|
| VAT | 3 692 942 | 3 525 465 |

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

## 3. Trade and Other receivables

| | | |
|---|---|---|
| **Gross balances** | | |
| Trade Debtors | 11 858 021 | 9 312 161 |
| Prepaid expenses | 488 223 | 488 223 |
| Other debtors | 2 000 684 | 9 373 720 |
| | **14 346 928** | **19 174 104** |
| | | |
| **Less: Allowance for impairment** | | |
| Trade Debtors | (11 507 639) | (8 727 830) |
| Other debtors | (839 920) | (839 920) |
| | **(12 347 559)** | **(9 567 750)** |
| | | |
| **Net balance** | | |
| Trade Debtors | 350 382 | 584 331 |
| Prepaid expenses | 488 223 | 488 223 |
| Other debtors | 1 160 764 | 8 533 800 |
| | **1 999 369** | **9 606 354** |
| | | |
| **Trade debtors ageing** | | |
| Current (0 -30 days) | 2 145 350 | 1 723 222 |
| 61 - 90 days | 102 543 | 40 946 |
| > 365 days | 9 610 128 | 7 547 993 |
| | **11 858 021** | **9 312 161** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2025 | 2024 |
| --- | --- | --- |

### 3. Trade and Other receivables (continued)

**Summary of debtors by customer classification**

| | | |
| --- | --- | --- |
| **Industrial/ commercial** | | |
| Current (0 -30 days) | - | - |
| 31 - 60 days | - | - |
| 61 - 90 days | - | - |
| 121 - 365 days | - | - |
| > 365 days | 321 586 | 240 000 |
| | 321 586 | 240 000 |
| Less: Allowance for impairment | (240 000) | (240 000) |
| | **81 586** | **-** |

| | | |
| --- | --- | --- |
| **National and provincial government** | | |
| Current (0 -30 days) | 2 083 205 | 1 723 222 |
| 31 - 60 days | 62 145 | 40 946 |
| 91 - 120 days | 143 489 | 40 946 |
| > 365 days | 9 247 595 | 7 267 047 |
| | 11 536 434 | 9 072 161 |
| Less: Allowance for impairment | (11 267 639) | (8 487 830) |
| | **268 795** | **584 331** |

| | | |
| --- | --- | --- |
| **Total** | | |
| Current (0 -30 days) | 2 083 205 | 1 723 222 |
| 31 - 60 days | 62 145 | 40 946 |
| 91 - 120 days | 143 489 | 40 946 |
| > 365 days | 9 569 182 | 7 507 047 |
| | 11 858 021 | 9 312 161 |
| Less: Allowance for impairment | (11 507 639) | (8 727 830) |
| | **350 382** | **584 331** |

| | | |
| --- | --- | --- |
| | - | - |
| | - | - |
| | - | - |
| | **-** | **-** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2025 | 2024 |
|---|---|---|

### 3. Trade and Other receivables (continued)

| | | |
|---|---|---|
| **Reconciliation of allowance for impairment** | | |
| Balance at beginning of the year | (9 567 750) | (7 708 337) |
| Contributions to allowance | (2 779 809) | (1 859 413) |
| | **(12 347 559)** | **(9 567 750)** |

| Figures in Rand | 2025 | 2024 |
| --- | --- | --- |

### 3. Trade and Other receivables (continued)

**Trade receivables 2025**
Kopanong Local municipality owes R11 858 021 which is 97% of the trade receivables. As at 30 June 2025 the municipality had started processes to recover this amount.

**Other Receivables - 30 June 2025**
Other receivables has the following balances:

Khumo Solutions R857 633
This relates to a court case which was awarded in favour of Xhariep District Municipality.

Mohokare Local Municipality- R1 044 512
Relates to amount owed by Mohokare Local Municipality.

Investment accrued interest- R94 273
This is interest accrued from investments not yet received.

Amount receivable from DMRE - R3 004
The amount relates to the amount receivable from DMRE for the INEP project.

Treasury deduction - R1 262
The amount relates to the amount which was deducted by treasury and due to rounding which is done by treasury the deduction was more by the R1 262.

**Other Receivables - 30 June 2024**
Other receivables has the following balances:

COGTA receivable- R7 336 791.
It relates to salaries paid on behalf of Kopanong Local Municipality and the amount will be refunded.

Mohokare Local Municipality- R1 044 512
Relates to amount owed by Mohokare Local Municipality.

Khumo Solution - R857 633
This relates to a court case with was awarded in favour of Xhariep District Municipality.

Investment accrued interest R36 659
This is interest accrued from investments not yet received.

Creditors with Debit balances R95 121
These relate to reclassified creditors with debit balances.

Amount receivable from DMRE - R3 004
The amount relates to the amount receivable from DMRE for the INEP project.

**Prepaid expenses 2025**
Finance lease prepayment R441 061.
Prepayments for Mayor's fuel and car rental R47 162.

**Prepaid expenses 2024**
Finance lease prepayment R441 061.
Prepayments for Mayor's fuel and car rental R47 162.

# Notes to the Annual Financial Statements

| Figures in Rand | 2025 | 2024 |
|---|---|---|

### 3. Trade and Other receivables (continued)

**Trade debtors pledged as security**

None of the debtors were pledged as security during the current year.

### 4. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---|---|---|
| Cash on hand | - | 44 |
| Bank balances | 4 156 342 | (33 030) |
| Short-term deposits | 11 477 279 | 340 518 |
| | **15 633 621** | **307 532** |

**Cash and cash equivalents pledged as collateral**

None of the cash has been pledged as security.

**The municipality had the following bank accounts**

| Account number / description | Bank statement balances | | | Cash book balances | | |
|---|---|---|---|---|---|---|
| | 30 June 2025 | 30 June 2024 | 30 June 2023 | 30 June 2025 | 30 June 2024 | 30 June 2023 |
| ABSA - Cheque Account - 4053628182 | 4 156 342 | (32 977) | 155 489 | 4 156 342 | (33 030) | 155 489 |
| ABSA - Call Account - 9309672913 | 27 846 | 13 162 | 6 594 | 27 846 | 13 162 | 6 594 |
| ABSA - Invest Tracker - 9358190966 | 13 355 | 212 500 | 125 998 | 13 355 | 212 500 | 125 998 |
| Nedbank - Call Deposit - 03/7662022528/000016 | 124 138 | 114 856 | 105 978 | 124 138 | 114 856 | 105 978 |
| ABSA Call account - 9384564278 | 11 311 940 | - | - | 11 311 940 | - | - |
| **Total** | **15 633 621** | **307 541** | **394 059** | **15 633 621** | **307 488** | **394 059** |

# Notes to the Annual Financial Statements

Figures in Rand

## 5. Property, plant and equipment

| | 2025 | | | 2024 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Buildings | 16 788 895 | (11 039 100) | 5 749 795 | 16 788 895 | (10 427 430) | 6 361 465 |
| Plant and machinery | 624 658 | (624 656) | 2 | 2 732 528 | (2 732 508) | 20 |
| Furniture and Office Equipment | 5 106 372 | (4 993 605) | 112 767 | 5 120 388 | (4 915 543) | 204 845 |
| Motor vehicles | 1 435 306 | (811 926) | 623 380 | 1 435 306 | (587 775) | 847 531 |
| IT equipment | 2 216 220 | (1 171 087) | 1 045 133 | 3 129 015 | (2 144 494) | 984 521 |
| **Total** | **26 171 451** | **(18 640 374)** | **7 531 077** | **29 206 132** | **(20 807 750)** | **8 398 382** |

**Reconciliation of property, plant and equipment - 2025**

| | Opening balance | Additions | Disposals | Depreciation | Total |
|---|---|---|---|---|---|
| Buildings | 6 361 465 | - | - | (611 670) | 5 749 795 |
| Plant and machinery | 20 | - | (18) | - | 2 |
| Furniture and Office Equipment | 204 845 | - | (414) | (91 664) | 112 767 |
| Motor vehicles | 847 531 | - | - | (224 151) | 623 380 |
| IT equipment | 984 521 | 301 189 | (78 340) | (162 237) | 1 045 133 |
| | **8 398 382** | **301 189** | **(78 772)** | **(1 089 722)** | **7 531 077** |

The disposal is as a result of the asset write-offs.

## Notes to the Annual Financial Statements

Figures in Rand

**5. Property, plant and equipment (continued)**

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

| | Opening balance | Additions | Disposals | Depreciation | Total |
|---|---|---|---|---|---|
| Buildings | 6 973 136 | - | - | (611 671) | 6 361 465 |
| Plant and machinery | 20 | - | - | - | 20 |
| Furniture and Office Equipment | 357 999 | - | - | (153 154) | 204 845 |
| Motor vehicles | 1 168 083 | - | (105 071) | (215 481) | 847 531 |
| IT equipment | 959 842 | 200 676 | (33 982) | (142 015) | 984 521 |
| | **9 459 080** | **200 676** | **(139 053)** | **(1 122 321)** | **8 398 382** |

The asset disposal in 2023/2024 was as a result of IT equipment write-off

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

| | | |
|---|---|---|
| **Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance** | | |
| General expenses | 1 253 372 | 633 069 |

**Change in estimate**

There is no change in the current 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.

# Notes to the Annual Financial Statements

Figures in Rand

## 6. Intangible assets

| | 2025 | | | 2024 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer Software | 2 440 568 | (2 440 568) | - | 2 440 568 | (2 439 400) | 1 168 |

**Reconciliation of intangible assets - 2025**

| | Opening balance | Amortisation | Total |
|---|---|---|---|
| Computer Software | 1 168 | (1 168) | - |

The Municipality did not have any system to capitalise as there was no active system license which was running for more than a year therefore there was no need fo a review of the usefulife of the intangible assets.

**Reconciliation of intangible assets - 2024**

| | Opening balance | Amortisation | Total |
|---|---|---|---|
| Computer software | 2 337 | (1 169) | 1 168 |

# Notes to the Annual Financial Statements

| Figures in Rand | 2025 | 2024 |
|---|---|---|

## 7. Payables from exchange transactions

| | | |
|---|---|---|
| Trade payables | 12 027 413 | 11 230 152 |
| COIDA | 4 791 137 | 4 291 655 |
| Auditor General South Africa | - | 100 000 |
| Sundry Creditors | 340 943 | 340 943 |
| Bonus Accrual | 1 031 354 | 1 052 058 |
| Leave pay Accrual | 4 111 620 | 4 036 132 |
| Third party payables | 1 922 633 | 440 406 |
| | **24 225 100** | **21 491 346** |

## 8. Payables from non-exchange transactions

| | | |
|---|---|---|
| Payables from non-exchange transactions | 23 345 508 | 11 990 567 |

**Payables from non-exchange 30 June 2025**

Below is the details of the unspent grants payable: which is payable:

MIG Grant received on behalf of Mohokare Local Municipality - R9 248 510.
MIG Grant received on behalf of Kopanong Local Municipality- R10 330 844.

MIG Kopanong retention - R1 792 759
COGTA - Provincial Infrastructure Grant (PIG) of R87 689.80.

Kopanong COGTA advance - R1 138 209.

Mangaung Metro Motheo grant of R 711 416

Thetha Grant of R 36 080

**Payables from non-exchange 30 June 2024**

Below is the details of the unspent grants payable: which is payable:
MIG Grant received on behalf of Kopanong R10 593 313.

MIG Kopanong retention 562 069.
Mangaung Metro Motheo grant of R 711 416

COGTA - Provincial Infrastructure Grant (PIG) of R87 689.80

Thetha Grant of R 36 080

# Notes to the Annual Financial Statements

| Figures in Rand | 2025 | 2024 |
|---|---|---|

## 9. Employee benefit obligations

**Defined benefit plan**

The long service award liability arises from Xhariep District Municipality being a party to the collective agreement on condition of service for the Free State Division of SALGA. This agreement is effective from 1 July 2010.

Xhariep District Municipality has a policy to provide long service awards to employees who have been in service of the municipality for a certain period of time. The municipality offers bonuses for every 5 years of completed service from 5 years to 45 years.

The long service awards plan is a defined benefit plan. At period end 60 employees were eligible for the long service bonuses.

The Long Service Award valuation was conducted as at 30 June 2025 by ZAQEN Actuaries (Pty) Ltd.

The current service cost for the year is estimated to be R262 450 (30 June 2024: R252 248) whereas the interest cost for the ensuring year is estimated to be R375 154 (30 June 2024: R377 041).

**Reconciliation of obligation**

| | | |
|---|---|---|
| **Carrying value** | | |
| Accrued liability as at 30 June 2024 | 2 996 156 | 2 733 966 |
| Current service cost | 262 450 | 252 248 |
| Benefits paid | (519 000) | (218 831) |
| Interest cost | 375 154 | 377 041 |
| Actuarial gain | (359 760) | (148 268) |
| | **2 755 000** | **2 996 156** |

| | | |
|---|---|---|
| Non-current liabilities | (2 651 000) | (2 503 847) |
| Current liabilities | (104 000) | (492 309) |
| | **(2 755 000)** | **(2 996 156)** |

The expected value of each employee's long service awards is projected to the next interval by allowing for future salary growth.

Long service benefits are awarded in the form of leave days and a percentage of salary. The average leave has been converted into a percentage of the employee's annual salary. The conversion is based on a 250 working days year per year and therefore the benefits awarded can be expressed as follows:

**Changes in the present value of the defined benefit obligation are as follows:**

| | | |
|---|---|---|
| Opening balance | 2 996 156 | 2 733 966 |
| Net expense recognised in the statement of financial performance | (241 156) | 262 190 |
| | **2 755 000** | **2 996 156** |

**Net expense recognised in the statement of financial performance**

| | | |
|---|---|---|
| Current service cost | 262 450 | 252 248 |
| Interest cost | 375 154 | 377 041 |
| Actuarial (gains) losses | (359 760) | (148 268) |
| Settlement | (519 000) | (218 831) |
| | **(241 156)** | **262 190** |

**Key assumptions used**

Assumptions used at the reporting date:

# Notes to the Annual Financial Statements

| Figures in Rand | 2025 | 2024 |
| --- | --- | --- |

## 9. Employee benefit obligations (continued)

| | | |
| --- | --- | --- |
| Discount rates used | 9,43 % | 13,00 % |
| Medical cost trend rates | 4,22 % | 7,49 % |
| Expected increase in salaries | 5,22 % | 8,49 % |
| Expected pension increases | 4,01 % | 4,17 % |

Discount rate assumption

The discount rate reflects the estimated timing of benefit payments.

The discount rate reflects the estimated timing of benefit payments. In practice, an Entity often achieves this by applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments and the currency in which the benefits are to be paid.

The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. We have used the nominal yield curve for zero-coupon SA Government bonds with an average duration between 10 and 15 years as at 30 June 2025. The resultant discount rate was 9.43%. The source is the Johannesburg Stock Exchange through IRESS data services.

Future inflation assumption

The general inflation assumption is used to estimate the base rate for determining the rate at which the future subsidies will increase.

We have estimated the market's pricing of inflation by comparing the yields on zero-coupon index linked government bonds and zero-coupon government bonds both of an average of 10 to 15 year duration consistent with the duration of the liabilities. The implied inflation assumption is therefore 4.22% per annum for future inflation. The source of the data is the Johannesburg Stock Exchange through IRESS data service.

Future salary inflation assumption

The general inflation assumption is used to estimate the base rate for determining the rate at which the future salaries will increase.

We assumed that salary inflation will exceed general inflation by 1.0% per annum. Therefore, we have used a salary inflation assumption of 5.22% per annum.

Even though the actual values used for the discount rate and the expected increase in salary inflation are important, the "gap" between the two assumptions is more important. This "gap" is referred to as the net discount rate. The net discount rate is 4.17% per annum (derived from a discount rate of 13.00% and the expected salary inflation rate of 8.49%).

The implied net discount rate was 4.17% at the previous valuation.

Net discount rate

4.01% for 2025

Demographic valuation assumptions

We have retained the demographic assumptions used in the previous year's valuation.

Pre-retirement mortality

We have assumed that the pre-retirement mortality will be in line with the SA85-90 table, which is a table reflecting mortality experience in South Africa. This assumption is consistent with that of the previous valuation.

Withdrawal rates

## Notes to the Annual Financial Statements

| Figures in Rand | 2025 | 2024 |
|---|---|---|

### 9. Employee benefit obligations (continued)

The table below used reflect the rates of withdrawal used to value the liabilities for both males and females:

**Other assumptions**

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:

Amounts for the current and previous four years are as follows:

| | 2025 | 2024 | 2023 | 2022 | 2021 |
|---|---|---|---|---|---|
| Defined benefit obligation | 2 755 000 | 2 966 156 | 2 733 966 | 2 695 035 | 2 656 923 |

### 10. Unspent conditional grants and receipts

**Unspent conditional grants and receipts comprises of:**

| | 2025 | 2024 |
|---|---|---|
| **Unspent conditional grants and receipts** | | |
| Rural Roads Asset Management Systems | 7 933 | 1 136 |

**Movement during the year**

| | 2025 | 2024 |
|---|---|---|
| Balance at the beginning of the year | 1 136 | 41 |
| Additions during the year | 2 411 000 | 26 277 000 |
| Income recognition during the year | (2 404 203) | (26 275 905) |
| | **7 933** | **1 136** |

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

See note 17 for reconciliation of grants from National/Provincial Government.

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

### 11. Rental of facilities

| | 2025 | 2024 |
|---|---|---|
| **Premises** | | |
| Rental income | 722 775 | 695 911 |
| | **722 775** | **695 911** |

The amounts emanates from the rental of a section of the building to Kopanong Local Municipality and the Free State Gambling Board and National Youth Development Agency (NYDA).
The rentals increase by the 10% every year as per the lease agreement.

### 12. Interest received (debtors)

| | 2025 | 2024 |
|---|---|---|
| Interest received receivables | 1 347 576 | 1 084 629 |

The interest on debtors is mainly from Kopanong Local Municipality debt. The local municipality has not been paying for rental and their portion for service charges for the past years.

# Notes to the Annual Financial Statements

| Figures in Rand | 2025 | 2024 |
|---|---|---|

## 13. Other income

| | | |
|---|---|---|
| Bylaw certificates Income | 259 255 | 44 452 |
| Parking fee income | 88 227 | 78 509 |
| Tender documents | 2 174 | 957 |
| | **349 656** | **123 918** |

## 14. Interest received (bank/ investments)

| | | |
|---|---|---|
| **Interest revenue** | | |
| Bank | 30 816 | 48 217 |
| Interest received (Investments) | 1 520 322 | 1 365 688 |
| | **1 551 138** | **1 413 905** |

## 15. Contract revenue

| | | |
|---|---|---|
| Contract revenue - INEP | - | 23 972 003 |

This revenue arise from the electrification project being implemented by Xhariep District Municipality on behalf of Mohokare Local Municipality.

## 16. Debt assistance (Non exchange)

| | | |
|---|---|---|
| Debt assistance (Non Exchange) | 2 191 136 | 609 401 |

The Debt assistance is relate to audit fees owed by the district municipality, which were paid by provincial treasury to AGSA on behalf of district municipality.

# Notes to the Annual Financial Statements

| Figures in Rand | 2025 | 2024 |
|---|---|---|

## 17. Government grants & subsidies

**Operating grants**

| | | |
|---|---|---|
| Equitable share | 52 396 000 | 50 851 000 |
| Provincial Financial Assistance Grant | 4 392 000 | 4 392 000 |
| Expanded Public Works Programme | 1 241 000 | 921 000 |
| Rural Roads Asset Management Systems | 2 404 203 | 2 306 905 |
| Financial Management Grant | 1 700 000 | 1 720 000 |
| | **62 133 203** | **60 190 905** |

**Conditional and Unconditional**

Included in above are the following grants and subsidies received:

| | | |
|---|---|---|
| Conditional grants received | 5 345 203 | 4 947 905 |
| Unconditional grants received | 56 788 000 | 55 243 000 |
| | **62 133 203** | **60 190 905** |

**Equitable Share**

The grant is intended to subsidise the municipality while excluding both strategic and operational responsibilities.

**Financial Management Grant**

| | | |
|---|---|---|
| Current-year receipts | 1 700 000 | 1 720 000 |
| Conditions met - transferred to revenue | (1 700 000) | (1 720 000) |
| | - | - |

Conditions have been met - no liabilities recognised (see note 10).

The purpose of the grant is to assist municipalities in building in house capacity, promote and support reform to financial management and implementation of the Municipal Financial Management Act (MFMA) 56 of 2003.

**Expanded Public Works Programme**

| | | |
|---|---|---|
| Current-year receipts | 1 241 000 | 921 000 |
| Conditions met - transferred to revenue | (1 241 000) | (921 000) |
| | - | - |

Conditions have been met - no liabilities recognised (see note 10).

The purpose of the grant is to expand job creation programs in the district.

# Notes to the Annual Financial Statements

| Figures in Rand | 2025 | 2024 |
|---|---|---|

**17. Government grants & subsidies (continued)**

**Rural Road Asset Management**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 1 136 | - |
| Current-year receipts | 2 411 000 | 2 308 000 |
| Conditions met - transferred to revenue | (2 404 203) | (2 306 864) |
| | **7 933** | **1 136** |

Partial conditions have been met - liabilities recognised (see note 10).

The purpose of this grant is to assist the municipality monitor the conditions of the municipal roads.

**Provincial Financial Assistance Grant**

| | | |
|---|---|---|
| Current-year receipts | 4 392 000 | 4 392 000 |
| Conditions met - transferred to revenue | (4 392 000) | (4 392 000) |
| | **-** | **-** |

The grant is not a conditional grant and the funds are to assist the municipality with operational expenditure.

**Provincial Financial Assistance Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | - |
| Current-year receipts | - | 4 392 000 |
| Conditions met - transferred to revenue | - | (4 392 000) |
| | **-** | **-** |

Conditions have been met - no liabilities recognised (see note 10).

The grant is intended to assist the municipality with electrification projects.

**18. COGTA assistance grant**

| | | |
|---|---|---|
| COGTA assistance grant- Kopanong | - | 11 510 791 |

This grant is to be received from COGTA in relation to the funds paid by Xhariep to Kopanong Local Municipality to assist the local municipality with its financial needs.

# Notes to the Annual Financial Statements

| Figures in Rand | 2025 | 2024 |
|---|---|---|

## 19. Employee related costs

| | | |
|---|---|---|
| Basic | 32 978 916 | 32 010 036 |
| Bonus | 2 125 708 | 2 144 103 |
| Medical aid - company contributions | 2 520 319 | 2 396 979 |
| UIF | 169 782 | 165 091 |
| SDL | 404 224 | 383 917 |
| SALGBC | 10 958 | 10 277 |
| Leave pay | 879 669 | 575 068 |
| Long-service awards | (7 683) | 91 614 |
| Acting allowances | 676 234 | 296 687 |
| Car allowance | 3 328 447 | 3 410 345 |
| Housing benefits and allowances | 382 562 | 334 393 |
| Cellular and Telephone | 327 224 | 250 702 |
| Pension | 5 105 419 | 5 408 354 |
| | **48 901 779** | **47 477 566** |

**Remuneration of Municipal Manager (Ms.L.Y Moletsane)**

| | | |
|---|---|---|
| Annual Remuneration | 955 800 | 900 242 |
| Car Allowance | 180 000 | 180 000 |
| Performance Bonuses | 79 685 | 70 060 |
| Contributions to UIF, Medical and Pension Funds | 211 286 | 183 175 |
| Telephone allowance | 10 200 | - |
| Non Pensionable Allowance and Leave Pay | - | 13 560 |
| | **1 436 971** | **1 347 037** |

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**Remuneration of Chief Finance Officer (Mr. P.V. Litabe)**

| | | |
|---|---|---|
| Annual Remuneration | - | 849 519 |
| Car Allowance | - | 100 000 |
| Termination benefits | - | 236 492 |
| Contributions to UIF, Medical and Pension Funds | - | 221 138 |
| Non Pensionable Allowance and leave pay | - | 20 340 |
| Cellphone allowance | - | 8 000 |
| | **-** | **1 435 489** |

The Chief Financial Officer's contract expired on 28 April 2024 and was not renewed.

**Remuneration of Acting Chief Finance Officer: (Mr T. S. Matsiliso)**

| | | |
|---|---|---|
| Acting allowance | 154 523 | 131 636 |

Acting period - 1 May 2024 to 15 November 2024.

In April it was from 1 April to 15 April then resumed from 1 july to 31 July 2024.

## Notes to the Annual Financial Statements

| Figures in Rand | 2025 | 2024 |
|---|---|---|

### 19. Employee related costs (continued)

**Remuneration of Director: Corporate Services (Mr M. A. Jafta)**

| | | |
|---|---|---|
| Annual Remuneration | 872 260 | 859 857 |
| Car Allowance | 120 000 | 120 000 |
| Telephone allowance | 10 200 | - |
| Contributions to UIF, Medical and Pension Funds | 191 248 | 157 815 |
| Acting allowance | 25 872 | - |
| | **1 219 580** | **1 137 672** |

**Remuneration of Director: Planning and Development Services (Mr. O. A. Kale)**

| | | |
|---|---|---|
| Annual Remuneration | 837 301 | 211 292 |
| Telephone allowance | 26 700 | 2 750 |
| Travel allowance | 96 000 | 12 000 |
| Contributions to UIF, Medical and Pension Funds | 187 190 | 27 982 |
| | **1 147 191** | **254 024** |

Appointed 28 March 2024 and started on 1 April 2024.

**Remuneration of Chief Financial Officer: Mr MMD. Tamasane**

| | | |
|---|---|---|
| Annual Remuneration | 443 097 | - |
| Car Allowance | 30 000 | - |
| Telephone allowance | 10 200 | - |
| Contributions to UIF, Medical and Pension Funds | 15 116 | - |
| Acting Allowance | 190 685 | - |
| | **689 098** | **-** |

.

Start date - 18 November 2024.

### 20. Remuneration of councillors

| | | |
|---|---|---|
| Executive Mayor | 1 062 440 | 1 018 182 |
| Speaker | 859 448 | 825 460 |
| Mayoral Committee Members | 1 251 040 | 1 664 975 |
| Councillors | 2 188 313 | 2 157 630 |
| | **5 361 241** | **5 666 247** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2025 | 2024 |
|---|---|---|

### 21. Construction contracts- INEP

At 30 June 2025 and 30 June 2024 there is no retention of contracts in progress.

**Agreements that meet all the criteria as per GRAP 11**
The entity determines which agreements meet all the criteria of the Standard of GRAP on Revenue as construction revenue progresses in the following manner:

| | |
|---|---|
| **The total amount of revenue received from DMRE 2024** | **R23 969 000** |
| Debt payment for the amount owed to the supplier (VAT exclusive) | R 7 391 304 |
| Total construction costs in the period (VAT exclusive) | R16 619 033 |
| VAT | R 3 601 551 |
| The amount overspent on the project | R 3 642 888 |

The cost basis was utilised to compute the percentage of completion of the contract. The percentage of completion arises from the cost incurred in the current period over the estimated total cost.Contract Revenue is measured at the fair value of the contract revenue received. The revenue measurement is affected by uncertainties that depend on outcomes of future events.

### 22. Depreciation and amortisation

| | 2025 | 2024 |
|---|---|---|
| Property, plant and equipment | 1 089 722 | 1 122 322 |
| Intangible assets | 1 168 | 1 169 |
| | **1 090 890** | **1 123 491** |

### 23. Finance costs

| | 2025 | 2024 |
|---|---|---|
| Interest charges-bank | 67 | - |
| Interest charges- Creditors | 169 217 | 166 786 |
| Employee benefit obligation | 375 154 | 463 640 |
| | **544 438** | **630 426** |

### 24. Auditors' remuneration

| | 2025 | 2024 |
|---|---|---|
| Fees | 3 891 994 | 3 295 162 |

### 25. Debt impairment

| | 2025 | 2024 |
|---|---|---|
| Debt impairment | 2 779 809 | 1 859 413 |

### 26. Contracted services

| | 2025 | 2024 |
|---|---|---|
| **Presented previously** | | |
| Specialist Services - RRAMS, IT Services | 2 635 165 | 2 924 933 |
| Other Contractors - Mscoa, Water Testing | 430 348 | 469 562 |
| | **3 065 513** | **3 394 495** |

### 27. Transfers and subsidies

| | 2025 | 2024 |
|---|---|---|
| Transfers and Subsidies | - | 18 902 096 |

# Notes to the Annual Financial Statements

| Figures in Rand | 2025 | 2024 |
| --- | --- | --- |

### 27. Transfers and subsidies (continued)

The expense arose as a result of payments made to Centlec on behalf of Mohokare Municipality out of the INEP Grant as per the the DMRE Directive total amount paid R7 391 304.
Total amount paid to Kopanong for assistance R4 300 000.
Amount paid to Vaal Central on behalf of Kopanong R4 174 000
Amount paid for the sewer spillage on behalf of Kopanong R3 036 791.

### 28. General expenses

| | 2025 | 2024 |
| --- | --- | --- |
| Advertising | 34 560 | 131 140 |
| Auditors remuneration | 3 891 994 | 3 295 162 |
| Bank charges | 60 213 | 57 961 |
| Consulting and professional fees | 2 423 839 | 1 199 224 |
| Entertainment | 14 108 | 519 |
| Conferences and seminars | 2 922 | 8 825 |
| Motor vehicle expenses | 17 605 | 10 234 |
| Fuel and oil | 471 869 | 615 114 |
| Printing and stationery | 156 425 | 160 851 |
| Protective clothing and uniform | 33 194 | 56 104 |
| Repairs and maintenance | 1 253 372 | 633 069 |
| Telephone, data and fax | 460 671 | 450 553 |
| Training and staff bursaries | 165 371 | 1 332 615 |
| Travel - local | 676 438 | 721 934 |
| Accommodation | 689 302 | 665 561 |
| SALGA | 583 753 | 546 600 |
| COIDA | 462 519 | 290 373 |
| Other expenses | 2 525 442 | 1 574 176 |
| | **13 923 597** | **11 750 015** |

### 29. (Losses) on disposal of assets

| | 2025 | 2024 |
| --- | --- | --- |
| Gains on disposal of property, plant and equipment | (78 772) | (139 054) |

### 30. Cash generated from operations

| | 2025 | 2024 |
| --- | --- | --- |
| Deficit | (6 836 231) | (7 192 831) |
| **Adjustments for:** | | |
| Depreciation and amortisation | 1 090 890 | 1 123 491 |
| Profit on sale of assets and liabilities | 78 772 | 139 054 |
| Actuarial gains | (359 760) | - |
| Interest on debtors | (1 347 576) | - |
| Debt impairment & bad debts write off | 2 779 809 | 1 859 413 |
| Movements in retirement benefit assets and liabilities | 375 154 | 262 189 |
| Employee obligation benefits | (519 000) | - |
| Employee obligation service cost | 262 450 | - |
| **Changes in working capital:** | | |
| Receivables | 6 174 755 | (9 344 829) |
| Payables from exchange transactions | 2 733 754 | 3 163 278 |
| VAT | (167 477) | (1 052 137) |
| Taxes and transfers payable (non-exchange) | 11 354 941 | 11 155 381 |
| Unspent conditional grants and receipts | 6 797 | 1 095 |
| | **15 627 278** | **114 104** |

### 31. Contingencies

**30 June 2025**
**Contingent liabilities**
Tefo Lebaka // Xhariep District Municipality, Employment Equity Act claim.The municipality is being sued for salary parity. The municipality is now waiting for the union to arrange the hearing date. The estimated liability is R150 000.

Lobamba Enterprise (PTY) LTD// Xhariep District Municipality- The municipality has been taken to court by Lobamba Enterprise who are claiming R415 575 for breach of contract.

**Contingent Assets**
The municipality did not have any contingent asset at year end.

**Contingent liabilities**

**30 June 2024**
Lobamba Enterprise (PTY) LTD// Xhariep District Municipality- The municipality has been taken to court by Lobamba Enterprise who are claiming R415 575 for breach of contract.

Tefo Lebaka // Xhariep District Municipality, Employment Equity Act claim.The municipality is being sued for salary parity. The municipality is now waiting for the union to arrange the hearing date. The estimated liability is R150 000.

**Contingent Assets**
The municipality did not have any contingent asset at year end.

# Notes to the Annual Financial Statements

| Figures in Rand | 2025 | 2024 |
|---|---|---|

## 32. Related parties

| Relationships | |
|---|---|
| Accounting Officer | Refer to officer's report |
| Compensation to key management | Refer to employee related cost note |
| Compensation to councillors | Refer to note on remuneration of councillors |

**Remuneration of Council**

## Notes to the Annual Financial Statements

Figures in Rand

### 32. Related parties (continued)

**Management class: Councillors**

**2025**

| Name | Basic salary | Medical Aid | Pension | Travel Allowance | Telephone | Other benefits received | Total |
|---|---|---|---|---|---|---|---|
| Executive Mayor | 934 569 | 70 348 | - | - | 43 200 | 14 323 | 1 062 440 |
| Speaker | 803 935 | - | - | - | 43 200 | 12 313 | 859 448 |
| Mayoral committee members | 1 183 601 | - | - | - | 46 800 | 20 638 | 1 251 039 |
| Other Councillors | 1 573 522 | 70 964 | 79 253 | 84 000 | 318 794 | 61 781 | 2 188 314 |
| | **4 495 627** | **141 312** | **79 253** | **84 000** | **451 994** | **109 055** | **5 361 241** |

**2024**

| Name | Basic salary | Medical Aid | Pension | Telephone Allowance | Other benefits received | Total |
|---|---|---|---|---|---|---|
| Executive Mayor | 850 179 | 103 894 | - | 45 600 | 18 509 | 1 018 182 |
| Speaker | 763 259 | - | - | 45 600 | 16 601 | 825 460 |
| Mayoral Committee Members | 1 470 166 | - | - | 151 708 | 43 101 | 1 664 975 |
| Other Councillors | 1 387 938 | 33 712 | 46 057 | 573 973 | 115 950 | 2 157 630 |
| | **4 471 542** | **137 606** | **46 057** | **816 881** | **194 161** | **5 666 247** |

### 33. Going concern

We draw attention to the fact that at 30 June 2025, the municipality had an accumulated deficit of (21 476 535) and that the municipality's total liabilities exceed its assets by (21 476 535).

The municipality notes that the current liabilities as at 30 June 2025 R 47 682 541 exceeds the current assets R 21 325 932 by R 26 356 609. This is mainly due to cashflow problems which ends up with creditors not being paid when due. The municipality mainly relies on funding from the Government grants and an increase on Provincial Assistance Grant has been noted which has significantly impacted the municipality's financial standing. The municipality has put in place measures to ensure that the municipality is able to pay its short term debts on time.

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

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

The municipality had a deficit for the period ending 30 June 2025 amounting to R (6 836 231) and as compared to the previous financial year surplus of R (7 192 831).

The municipality mainly relies on the funding from National and Provincial Government Grants on its day-to-day operations.

The funding for the municipality is likely to continue as per the approved budget for the 2025/2026 financial year by Council. The approved budget has been assessed and approved by Treasury.

Management assessed the revenue streams and notes that the trading revenue accounts for 10% and Grant accounts for 90% of the total revenue.

The major debtors were assessed and noted that they were already in financial difficulties before the pandemic and have been impaired.

The municipality is highly reliant on the grants and if these are reduced, will have impact on the municipality's going concern. However, no intention to reduced the grants has been noted and no further intention to close or scale down the municipality has been noted from the National and Provincial Government.

The ability of the municipality to continue as a going concern is dependent on the fact that most of the municipality's funding is from grant funding which is guaranteed to be received as allocated in the Division of Revenue Act (DORA) and Provincial Gazette. This funding is expected to slightly increase in the next financial year as shown in the DORA and this will assist the municipality in incurring what we budget properly in our expenditures. Management is actively looking for cost-cutting measures as evidenced by the reduction in current year expenditure. The measures include reducing physical meetings and have virtual meetings, reducing the catering expenses when events are being hosted by the municipality.

Based on the above assessment, the municipality incurred a net deficit of R (6 836 231) during the year ended 30 June 2025 and, as of that date, the municipality's current liabilities exceeded its current assets by R 26 356 609. The municipality is unable to pay its creditors' accounts when they fall due, as it takes the municipality more than 200 days to settle creditors. The total liabilities exceeded its total assets by R (21 476 532). These events or conditions, along with other matters as set forth above have been mitigated by the strategies above.

### 34. Events after the reporting date

At the time of preparing and submitting the Annual Financial Statements there were no subsequent events to disclose.

# Notes to the Annual Financial Statements

| Figures in Rand | 2025 | 2024 |
|---|---|---|

## 35. Unauthorised expenditure

| | | |
|---|---|---|
| Opening balance as previously reported | 44 450 541 | 35 072 743 |
| Add: Unauthorised expenditure - current | 16 073 357 | 15 706 893 |
| Less: Amount written-off 2021/2022 | (6 661 781) | - |
| Less: Amount written-off 2022/2023 | (6 724 033) | - |
| Less: Amount written-off - current | - | (6 329 095) |
| Less: Amount written-off 2023/2024 | (12 670 102) | - |
| **Closing balance** | **34 467 982** | **44 450 541** |

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

| | | |
|---|---|---|
| Non-cash | 3 644 281 | 2 464 403 |
| Cash | 12 429 076 | 13 242 490 |
| | **16 073 357** | **15 706 893** |

**Analysed as follows: non-cash**

| | | |
|---|---|---|
| Depreciation and amortisation | 864 472 | 604 990 |
| Debt impairments | 2 779 809 | 1 859 413 |
| | **3 644 281** | **2 464 403** |

**Analysed as follows: Cash**

| | | |
|---|---|---|
| Financial assistance to Kopanong (COGTA receivable) | - | 7 336 791 |
| General expenditure | 6 919 733 | 2 827 944 |
| Employee related costs | 3 377 769 | 1 878 813 |
| Finance cost | 494 345 | 476 088 |
| Contracted services | 1 637 229 | 722 854 |
| | **12 429 076** | **13 242 490** |

## 36. Fruitless and wasteful expenditure

| | | |
|---|---|---|
| Opening balance as previously reported | 2 322 344 | 2 392 329 |
| Add: Fruitless and wasteful expenditure identified - current | 166 649 | 255 704 |
| Less: Amount written off - 2022/2023 | (396 756) | (325 689) |
| Less: Amount written off - 2023/2024 | (395 706) | - |
| Less: Amount written off - 2024/2025 | (132 839) | - |
| **Closing balance** | **1 563 692** | **2 322 344** |

Fruitless and wasteful expenditure is presented inclusive of VAT

**Attributable to:**

| | | |
|---|---|---|
| | 166 649 | 255 704 |

| | | |
|---|---|---|
| **Analysed as follows:** | | |
| Interest-Audit fees | 129 619 | 60 056 |
| Accommodation | - | 2 580 |
| Interest ABSA overdraft | 67 | 4 607 |
| Penalty SARS | - | 160 485 |
| COIDA penalty | 36 963 | 27 976 |
| | **166 649** | **255 704** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2025 | 2024 |
|---|---|---|

### 37. Irregular expenditure

| | | |
|---|---|---|
| Opening balance as previously reported | 56 931 949 | 52 763 861 |
| Add: Irregular expenditure - (Non-compliance with laws and regulations) - current | 115 082 | 4 168 088 |
| **Closing balance** | **57 047 031** | **56 931 949** |

# Notes to the Annual Financial Statements

Figures in Rand

**37. Irregular expenditure (continued)**

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

| | Disciplinary steps taken/criminal proceedings | | |
|---|---|---|---|
| Overpayment of Section 56/57 Managers | The expenditure was identified in the prior years and is being assessed onhow to regularise the expenditure as it is ongoing. | - | 179 751 |
| Where competitive bidding process could not be followed. | The expenditure was identified during the current financial year. | 115 082 | 3 979 157 |
| Where three quotation could not be obtained. | The expenditure was identified during the current financial year | - | 9 180 |
| | | **115 082** | **4 168 088** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2025 | 2024 |
| --- | --- | --- |

### 38. Deviation from supply chain management regulations

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

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

For the financial year there were instances where goods and services were procured and deviated from the normal supply chain management policy, of which amounted to R2 352 842 - 30 June 2025 (30 June 2024: R1 960 240).

The reasons for these deviations were documented and reported to the  who considered them and subsequently approved the deviation from the normal supply chain management regulations.

| **Reasons for deviation** | | |
| --- | --- | --- |
| Sole Provider 2025: 9 incidents (2024: 8 incident) | 139 630 | 152 847 |
| Impractical 2025: 35 incidents (2024: 57 incident) | 2 213 212 | 1 807 393 |
| | **2 352 842** | **1 960 240** |

| **Categories** | **30 June 2025** | **30 June 2024** |
| --- | --- | --- |
| Membership fees | 52 446 | 11 830 |
| Flight tickets | 54 563 | 46 544 |
| Vehicle and equipment repairs | 159 024 | 55 971 |
| Mscoa System | 1 608 179 | - |
| Legal fees | 89 413 | - |
| ICT repairs | 26 378 | - |
| Bursaries | 282 704 | 838 168 |
| Staff training | 80 135 | 64 482 |
| Licenses | - | 753 298 |
| Advertising | - | 128 560 |
| Insurance | - | 2 199 |
| Recruitment expenses | - | 25 000 |
| Accommodation | - | 34 188 |
| | **2 352 842** | **1 960 240** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2025 | 2024 |
|---|---|---|

### 39. Financial instruments disclosure

**Categories of financial instruments**

**2025**

**Financial assets**

| | At amortised cost | Total |
|---|---|---|
| Trade and other receivables from exchange transactions | 1 999 369 | 1 999 369 |
| Cash and cash equivalents | 15 633 621 | 15 633 621 |
| | **17 632 990** | **17 632 990** |

**Financial liabilities**

| | At amortised cost | Total |
|---|---|---|
| Trade and other payables from exchange transactions | 19 467 866 | 19 467 866 |
| Payables from non exchange transactions | 23 345 508 | 23 345 508 |
| | - | - |
| | **42 813 374** | **42 813 374** |

**2024**

**Financial assets**

| | At amortised cost | Total |
|---|---|---|
| Trade and other receivables from exchange transactions | 9 606 354 | 9 606 354 |
| Cash and cash equivalents | 340 609 | 340 609 |
| | **9 946 963** | **9 946 963** |

**Financial liabilities**

| | At amortised cost | Total |
|---|---|---|
| Trade and other payables from exchange transactions | 16 403 156 | 16 403 156 |
| Payables from non-exchange transactions | 11 990 567 | 11 990 567 |
| Bank overdraft | 33 077 | 33 077 |
| | **28 426 800** | **28 426 800** |

### 40. Risk management

**Financial risk management**

**Liquidity risk**

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

**40. Risk management (continued)**

**Credit risk**

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

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

| Financial instrument | 2025 | 2024 |
|---|---|---|
| Nedbank - Call Deposit | 124 138 | 114 856 |
| ABSA- Cheque account | 4 156 342 | - |
| ABSA - Invest Tracker | 13 355 | 212 500 |
| ABSA - Call Account | 27 846 | 13 162 |
| Receivables | 1 999 369 | 9 606 354 |

**Market risk**

**Interest rate risk**

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

The municipality's interest rate risk arises from short term loans and investment. These are issued at variable rate and expose the Municipality to cash flow interest rate risk.

Financial instruments that are issued at fixed rate expose the municipality to fair value interest rate risk.

### 41. Budget differences

**Material differences between budget and actual amounts**

The excess of actual over the final budget of 5% is deemed to be material. Reasons are provided below.
Generally, the actual has been higher than the budgeted amounts for the year.

**Statement of Financial Performance**

i. **Rental of Facilities**
Actual Rental of facilities income is less than amount budgeted as there were no significant rental escalations implemented during the year due to the financial condition of the municipality's biggest lessee.

ii. **Interest Received from debtors**
The difference was as a result of the interest charged to Kopanong for the outstanding rental balance which was not budgeted for.

iii**.Other Income**
The difference was as a result of the municipality collecting less on licenses and permits.

iv**. Interest received -(bank/investments**)
The difference was as a result of receiving less interest from the banks, Investment accounts accrued less interest due to less funds invested.

v**.Debt Assistance (Non-Exchange)**
The difference was as a result of a debt waiver which was given by the Auditor General of South Africa to the municipality in its efforts to help the municipality clear its audit fees arrears.

**vi. LG SETA Income**
LGSETA income was not budgeted for in the current year.

**vii. Depreciation and amortisation**
Municipality under-budged for depreciation and amortisation

**viii. Finance costs**
The variance is as a result of the year end employee benefits obligations.

**ix.Debt impairment**
Municipality did not budget for debt impairment.

**xi. Contracted services**
Contracted services were over budgeted for. The municipality implemented cost containment measures to ensure that contracted costs are not high.

**xi. Transfers and subsidies**
The variance is as a result of the municipality not incurring any transfers and subsidies during the financial year.

**xii. General Expenses**
Municipality under budgeted for general expenses.

xiii. Loss on disposal
Municipality di not budget for loss on disposal of assets.

### 41. Budget differences (continued)

**xiv. Actuarial gains**
The municipality did not budget for Actuarial gain.

**Statement of Financial Position**

**xv. VAT receivables**
The variance was as a result of the municipality under budgeting for VAT receivable.

**xvi. Trade and other receivables**
Actual trade and other receivables is higher than the amount budgeted for as a result of non-payment of the outstanding balance from the municipality's biggest debtor.

**xvii. Cash and cash equivalents**
The actual cash balance is higher than the budgeted amounts as a result of the MIG funds that were held by the municipality at year end.

**xviiii. Property, plant and equipment**
Municipality under budgeted for Property, plant and equipment.

**xix. Payables from exchange transaction**
The variance is as a result of payables from exchange transactions that were not budgeted for.

**xx. Payables from non exchange transactions**
The variance is mainly as a result of Municipal Infrastructure Grant which was still held by the municipality as at year end and not budgeted for as a liability

**xxi. Employee benefit obligation**
Municipality did not budget for employee benefit obligations.

**xxii. VAT Payable**
The municipality had a VAT receivable at year end and not a VAT payable hence the variance

**xxiii. Employee benefit obligation**
Municipality did not budget for employee benefit obligations.

**xxiv. Unspent conditional grants**
The municipality anticipated to spend all the grants received hence the variance.

**xxv. Accumulated deficit**
The variance is as a result of all the movements on the Statement of financial position.

## Notes to the Annual Financial Statements

| Figures in Rand | 2025 | 2024 |
|---|---|---|

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

**Contributions to organised local government (SALGBC)**

| | | |
|---|---|---|
| Opening balance as previously reported | 3 857 | 3 184 |
| Add: Charge for the year | 20 889 | 23 256 |
| Less: Amounts paid - current | (22 906) | (22 583) |
| | **1 840** | **3 857** |

**VAT**

| | | |
|---|---|---|
| Opening balance as previously reported | 3 525 465 | 2 392 080 |
| Add: Charge for the year | 1 390 930 | 4 765 591 |
| Less: Amounts recovered - current | (1 223 453) | (3 632 206) |
| | **3 692 942** | **3 525 465** |

**Audit fees**

| | | |
|---|---|---|
| Opening balance | 100 000 | 437 481 |
| Charge for the year | 3 891 994 | 3 295 162 |
| Amount paid - current year | (3 991 994) | (3 632 643) |
| | **-** | **100 000** |

**PAYE UIF and SDL**

| | | |
|---|---|---|
| Opening balance | - | 823 445 |
| Current year charge | 9 801 537 | 9 319 771 |
| Amount paid - current year | (8 988 716) | (9 393 917) |
| Amount paid - previous years | - | (749 299) |
| | **812 821** | **-** |

**Pension and Medical Aid Deductions**

| | | |
|---|---|---|
| Opening balance | (8 634) | 912 141 |
| Current year charge | 12 532 707 | 7 810 677 |
| Amount paid - current year | (11 440 158) | (7 793 791) |
| Amount paid - previous years | - | (937 661) |
| | **1 083 915** | **(8 634)** |

**VAT**

| | | |
|---|---|---|
| VAT receivable | 15 180 879 | 13 709 060 |
| VAT payable | 11 487 937 | 10 183 595 |
| | **3 692 942** | **3 525 465** |

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

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

### 43. Segment information

**General information**

# Notes to the Annual Financial Statements

| Figures in Rand | 2025 | 2024 |
| --- | --- | --- |

## 43. Segment information (continued)

**Identification of segments**

The municipality does not have any reportable segments which generates economic benefits. The financial information is already disclosed in the Annual Financial Statements.

## 44. Prior-year adjustments

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

**Statement of financial position**

**VAT receivable**
VAT receivable was restated as a result of restating the prepayments for RRAMS expenditure and expenses.

**Trade and other receivables**
Trade and other receivables was restated as a result of the funds that were paid by the municipality which were supposed to be recovered from COGTA. The funds were previously accounted for as part of MIG liability under Payables from non exchange transactions. These funds were still owing from COGTA as at 30 June 2024.

**Property, plant and equipment**
This was restated as a result of depreciation that had not been correctly calculated during the 2024 financial year.

**Payables from exchange**
The payables rom exchange was restated as a result of the Kopanong Local Municipality invoice not captured and the Rethuseng Live Line invoice correction.

**Payables from non-exchange transactions**
These were restated as a result of an error where funds that were receivable from COGTA were incorrectly accounted for as part of MIG liability under Payables from non exchange transactions

**Accumulated deficit**
This was restated as a result of the net effect of all restatements effected on all Statement of Financial Position.

**Statement of financial performance**

**COGTA assistance grant**
This was restated as a result of funds that were received and receivable from COGTA and not previously accounted for as part of the COGTA assistance grant

**Construction costs**
The construction costs were restated as a result of an incorrect invoice being captured.

**Depreciation and amortisation**
This was restated as a result of depreciation that had not been correctly calculated during the 2024 financial year

**Transfers and subsidies**
This was restated as a result of the donation that was made during the 2024 financial year and not accounted for as part of Transfers and subsidies.

**Loss on disposal of assets**
The loss on disposal of assets was restated as a result of a disposal of ITequipment which was not adjusted.

**General expenses**
The general expenses were restated as a result of the utility bills from Kopanong not being captured.

**Statement of financial position**

| Figures in Rand | 2025 | 2024 |
| --- | --- | --- |

**44. Prior-year adjustments (continued)**

**2024**

| | As previously reported | Correction of error | Restated |
| --- | --- | --- | --- |
| Trade and other receivables | 7 084 772 | 2 521 582 | 9 606 354 |
| VAT receivable | 3 297 211 | 228 254 | 3 525 465 |
| Property, plant and equipment | 8 455 935 | (57 553) | 8 398 382 |
| Payables from exchange transactions | (21 118 456) | (372 891) | (21 491 347) |
| Payables from non exchange transactions | (7 909 264) | (4 081 303) | (11 990 567) |
| Accumulated deficit | (12 878 394) | (1 761 911) | (14 640 305) |
| | **(23 068 196)** | **(3 523 822)** | **(26 592 018)** |

**Statement of financial performance**

**2024**

| | As previously reported | Correction of error | Restated |
| --- | --- | --- | --- |
| COGTA assistance | 4 300 000 | 7 210 791 | 11 510 791 |
| Depreciation and amortisation | (1 204 990) | 81 499 | (1 123 491) |
| Transfers and subsidies | (11 691 304) | (7 210 792) | (18 902 096) |
| Loss on disposal | - | (139 054) | (139 054) |
| Construction costs | (16 456 815) | (162 218) | (16 619 033) |
| General expenses | (11 587 983) | (162 032) | (11 750 015) |
| **Surplus for the year** | **(36 641 092)** | **(381 806)** | **(37 022 898)** |

**Disclosures**

The following prior period errors adjustments occurred:

**Financial Instruments - Financial liabilities**

| | | |
| --- | --- | --- |
| Audited balance | 29 060 797 | - |
| Adjustments made | (633 997) | - |
| **Restated opening balance** | **28 426 800** | **-** |

The Adjustment made to the financial liabilities was as a result of including leave and bonus accrual.

**Unauthorised expenditure**

| | | |
| --- | --- | --- |
| Opening balance | 41 413 750 | - |
| Adjustments made | 3 036 791 | - |
| **Restated opening balance** | **44 450 541** | **-** |

Adjustment made to opening balance of unauthorised expenditure is due to an error of including expenses not related to the Kopanong LM MIG grant.