# Lejweleputswa District Municipality
## Annual Financial Statements
## for the year ended 30 June 2025

# General Information

| | |
|---|---|
| **Legal form of entity** | Municipality in terms of section 1 of the Local Government: Municipal Structures Act, 1998 (Act No.11 of 1998) read with section 151(1) of the Constitution of the Republic of South Africa, 1996 ( Act No.108 of 1996) |
| **Nature of business and principal activities** | District municipality |
| **Municipal demarcation code** | DC18 |
| **Capacity of local authority** | Low capacity |
| **Grading of local authority** | 4 |
| **Speaker** | Cllr DJ Dikane |
| **Mayoral committee** | |
| Executive Mayor | Cllr NV Ntakumbana |
| Members of Mayoral Committee | Cllr SE Tsuinke - MMC Health Service and Disaster Management<br>Cllr MJ Meli - MMC LED, Tourism, Agriculture, Youth and SMME<br>Cllr BA Kabi - MMC Community Services and Special Programmes<br>Cllr MS Baleni - MMC Corporate Services<br>Cllr PP Maleka - MMC Infrastructure<br>Cllr KV Van Rooyen - MMC IDP, PMS, Policy Development and Monitoring<br>Cllr D Kotzee - MMC Finance |
| **Accounting Officer** | Mr ML Makhetha |
| **Chief Finance Officer (CFO)** | Mr MK Khoabane |
| **Registered office** | Office of the Municipal Manager<br>Corner of Jan Hofmeyer and Tempest Road<br>Jim Fouche Park<br>Welkom<br>9459 |
| **Business address** | Corner of Jan Hofmeyer and Tempest Road<br>Jim Fouche Park<br>Welkom<br>9459 |
| **Postal address** | P.O. Box 2163<br>Welkom<br>9460 |
| **Controlling entity** | Lejweleputswa District Municipality |
| **Bankers** | ABSA Bank Limited |
| **Auditors** | Auditor-General of South Africa |
| **Enabling legislation** | Constitution of the Republic of South Africa,1995 (Act No.108 of 1995)<br>Municipal Finance Management Act, 2003 (Act No. 56 of 2003)<br>Municipal Structures Act,1998 (Act No. 117 of 1998)<br>Municipal Systems Act, 2000 (Act No. 32 of 2000) |

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**Abbreviations used:**

| | |
|---|---|
| CRR | Capital Replacement Reserve |
| DBSA | Development Bank of South Africa |
| GRAP | Generally Recognised Accounting Practice |
| ME's | Municipal Entities |
| MEC | Member of the Executive Council |
| IPSAS | International Public Sector Accounting Standards |
| 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 he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

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

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

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

The annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the accounting officer on 29 August 2025 and were signed on its behalf by:

**ML Makhetha**
**Municipal Manager**

# Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2025.

### 1. Review of activities

**Main business and operations**

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

### 2. Going concern

We draw attention to the fact that at 30 June 2025, the municipality had an accumulated surplus of R 19 148 352 and that the municipality's total assets exceed its liabilities by R 19 148 352

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.

### 3. Accounting Officer

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

Mr Makhetha was appointed as the accounting officer in October 2023

### 4. Interest in controlled entities

Lejweleputswa District Municipality is the parent of Lejwe Le Putswa Development Agency SOC Ltd and holds 100% interest.

Details of the municipality's investment in controlled entities are set out in note 8.

### 5. Auditors

Auditor-General of South Africa

**ML Makhetha**
**Municipal Manager**

# Statement of Financial Position as at 30 June 2025

| Figures in Rand | Note(s) | 2025 | 2024 |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Receivables from non-exchange transactions | 4 | 69 343 | 15 277 |
| VAT receivable | 5 | 377 270 | 2 477 829 |
| Cash and cash equivalents | 3 | 27 418 072 | 70 619 898 |
| | | **27 864 685** | **73 113 004** |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 6 | 48 800 409 | 53 724 893 |
| Intangible assets | 7 | 148 509 | 116 306 |
| Investments in controlled entities | 8 | 100 | 100 |
| | | **48 949 018** | **53 841 299** |
| **Total Assets** | | **76 813 703** | **126 954 303** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Payables from exchange transactions | 9 | 27 343 429 | 28 597 932 |
| Transfers payable (non-exchange) | 11 | 6 915 592 | 5 483 724 |
| Unspent conditional grants and receipts | 12 | 174 330 | 60 242 |
| Long service awards | 10 | 705 000 | 1 348 000 |
| Employee benefit obligation | 10 | 688 000 | 523 000 |
| | | **35 826 351** | **36 012 898** |
| **Non-Current Liabilities** | | | |
| Employee benefit obligation | 10 | 17 446 000 | 16 651 000 |
| Long Service Awards | 10 | 4 393 000 | 4 185 000 |
| | | **21 839 000** | **20 836 000** |
| **Total Liabilities** | | **57 665 351** | **56 848 898** |
| **Net Assets** | | **19 148 352** | **70 105 405** |
| Accumulated surplus/deficit | | 19 148 352 | 70 105 405 |
| **Total Net Assets** | | **19 148 352** | **70 105 405** |

# Statement of Financial Performance

| Figures in Rand | Note(s) | 2025 | 2024 |
|---|---|---|---|
| **Revenue** | | | |
| **Revenue from exchange transactions** | | | |
| Licences and permits | 14 | 16 500 | 93 500 |
| Proceeds from disposal of property, plant and equipment | 15 | 18 362 | 25 330 |
| Operational revenue | 16 | 531 907 | 361 280 |
| Interest earned | 17 | 5 347 789 | 9 819 349 |
| **Total revenue from exchange transactions** | | **5 914 558** | **10 299 459** |
| **Revenue from non-exchange transactions** | | | |
| **Transfer revenue** | | | |
| Government grants & subsidies | 18 | 157 761 690 | 153 977 481 |
| **Total revenue** | 13 | **163 676 248** | **164 276 940** |
| **Expenditure** | | | |
| Employee related costs | 19 | (140 861 452) | (125 976 452) |
| Remuneration of councillors | 20 | (12 083 357) | (11 160 345) |
| Transfers and subsidies | 21 | (11 434 153) | (16 015 835) |
| Depreciation and amortisation | 22 | (5 037 121) | (4 529 668) |
| Operating lease expenditure | 24 | (2 473 675) | (730 122) |
| Inventory consumed | 25 | (1 570 663) | (3 306 123) |
| Contracted services | 26 | (21 169 691) | (24 378 545) |
| Operational cost | 27 | (20 957 074) | (23 480 721) |
| **Total expenditure** | | **(215 587 186)** | **(209 577 811)** |
| (Loss) gain on disposal of assets and liabilities | | (644 705) | 2 354 |
| Actuarial gains/losses | 10 | 1 626 000 | 1 081 503 |
| (Impairment loss)/Reversal of impairments | 23 | (27 414) | (156 112) |
| | | **953 881** | **927 745** |
| **Deficit for the year** | | **(50 957 057)** | **(44 373 126)** |

## Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus / deficit | Total net assets |
|---|---|---|
| **Balance at 01 July 2023** | **114 971 353** | **114 971 353** |
| Changes in net assets | | |
| Net income (losses) recognised directly in net assets | (492 818) | (492 818) |
| Surplus (deficit) for the year | (44 373 126) | (44 373 126) |
| Total changes | - | - |
| **Balance at 01 July 2024** | **70 105 409** | **70 105 409** |
| Changes in net assets | | |
| Surplus/(deficit) for the year | (50 957 057) | (50 957 057) |
| Total changes | (50 957 057) | (50 957 057) |
| **Balance at 30 June 2025** | **19 148 352** | **19 148 352** |

# Cash Flow Statement

| Figures in Rand | Note(s) | 2025 | 2024 Restated* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Customers | | (54 066) | - |
| Grants - LDM | | 157 761 690 | 152 981 297 |
| Interest income | | 5 347 789 | 9 660 663 |
| Taxation/Levies/Fines | | 2 100 559 | - |
| Other receipts | | 548 407 | 298 668 |
| Grants - Masilonyana | | 25 308 000 | 22 687 000 |
| | | 191 012 379 | 185 627 628 |
| **Payments** | | | |
| Employee costs | | (150 080 087) | (133 493 385) |
| Suppliers | | (59 653 525) | (63 432 253) |
| Transfers paid - Masilonyana | | (23 876 192) | (17 203 206) |
| | | (233 609 804) | (214 128 844) |
| **Net cash flows from operating activities** | 30 | **(42 597 425)** | **(28 501 216)** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 6 | (706 208) | (6 980 908) |
| Proceeds from sale of property, plant and equipment | 6 | 590 632 | 25 330 |
| Purchase of other intangible assets | 7 | (124 520) | (120 600) |
| **Net cash flows from investing activities** | | **(240 096)** | **(7 076 178)** |
| **Cash flows from financing activities** | | | |
| **Net increase/(decrease) in cash and cash equivalents** | | **(42 837 521)** | **(35 577 394)** |
| Cash and cash equivalents at the beginning of the year | | 70 619 898 | 106 197 292 |
| **Cash and cash equivalents at the end of the year** | 3 | **27 418 072** | **70 619 898** |

* See Note

# 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** | | | | | | |
| Licences and permits | - | - | **-** | 16 500 | **16 500** | |
| Proceeds from disposal of property, plant and equipment | - | - | **-** | 18 362 | **18 362** | |
| Operational revenue | - | - | **-** | 531 907 | **531 907** | X1 |
| Other income | 97 000 | - | **97 000** | - | **(97 000)** | |
| Interest received - investment | 5 465 000 | - | **5 465 000** | 5 347 789 | **(117 211)** | X2 |
| **Total revenue from exchange transactions** | **5 562 000** | **-** | **5 562 000** | **5 914 558** | **352 558** | |
| **Revenue from non-exchange transactions** | | | | | | |
| **Transfer revenue** | | | | | | |
| Government grants & subsidies | 157 942 000 | 30 791 724 | **188 733 726** | 157 761 690 | **(30 972 036)** | X3 |
| **Total revenue** | **163 504 000** | **30 791 724** | **194 295 726** | **163 676 248** | **(30 619 478)** | |
| **Expenditure** | | | | | | |
| Employee related cost | (136 048 005) | 2 634 655 | **(133 413 340)** | (140 861 452) | **(7 448 112)** | X4 |
| Remuneration of councillors | (11 427 181) | (1 097 023) | **12 524 204** | (12 083 357) | **(24 607 561)** | x5 |
| Transfers and subsidies | (11 621 974) | (30 891 724) | **(42 513 698)** | (11 434 153) | **31 079 545** | X6 |
| Depreciation and amortisation | (5 871 350) | - | **(5 871 350)** | (5 037 121) | **834 229** | X7 |
| Operating lease expenditure | (2 236 813) | (24 246) | **(2 261 059)** | (2 473 675) | **(212 616)** | X9 |
| Inventory consumed | (2 139 259) | 412 231 | **(1 727 028)** | (1 570 663) | **156 365** | X10 |
| Contracted Services | (19 662 753) | (2 183 656) | **(21 846 409)** | (21 169 691) | **676 718** | X11 |
| Operational cost | (22 786 772) | 358 039 | **(22 428 733)** | (20 957 074) | **1 471 659** | X12 |
| **Total expenditure** | **(211 794 107)** | **(30 791 724)** | **(217 537 413)** | **(215 587 186)** | **1 950 227** | |
| **Operating deficit** | **(48 290 107)** | **-** | **(48 290 107)** | **(51 910 938)** | **(3 620 831)** | |
| (Loss) on disposal of assets and liabilities | - | - | **-** | (644 705) | **(644 705)** | |
| Actuarial gains/losses | - | - | **-** | 1 626 000 | **1 626 000** | |
| (Impairment loss)/Reversal of impairments | - | - | **-** | (27 414) | **(27 414)** | |
| | **-** | **-** | **-** | **953 881** | **953 881** | |
| **Deficit before taxation** | **(48 290 107)** | **-** | **(48 290 107)** | **(50 957 057)** | **(2 666 950)** | |

# 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 Position** | | | | | | |
| **Assets** | | | | | | |
| **Current Assets** | | | | | | |
| Receivables from non-exchange transactions | 412 000 | (267 000) | **145 000** | 69 343 | **(75 657)** | X13 |
| VAT receivable | 3 466 000 | (2 389 000) | **1 077 000** | 377 270 | **(699 730)** | X23 |
| Cash and cash equivalents | 57 558 000 | 13 720 000 | **71 278 000** | 27 418 072 | **(43 859 928)** | X14 |
| | **61 436 000** | **11 064 000** | **72 500 000** | **27 864 685** | **(44 635 315)** | |
| **Non-Current Assets** | | | | | | |
| Property, plant and equipment | 49 891 000 | 2 339 000 | **52 230 000** | 48 800 409 | **(3 429 591)** | X15 |
| Intangible assets | 89 000 | 278 000 | **367 000** | 148 509 | **(218 491)** | X16 |
| Investments in controlled entities | 100 | (100) | **-** | 100 | **100** | |
| | **49 980 100** | **2 616 900** | **52 597 000** | **48 949 018** | **(3 647 982)** | |
| **Total Assets** | **111 416 100** | **13 680 900** | **125 097 000** | **76 813 703** | **(48 283 297)** | |
| **Liabilities** | | | | | | |
| **Current Liabilities** | | | | | | |
| Payables from exchange transactions | 20 157 000 | 75 538 000 | **95 695 000** | 27 343 429 | **(68 351 571)** | X17 |
| Transfers payable (non-exchange) | - | - | **-** | 6 915 592 | **6 915 592** | |
| Unspent conditional grants and receipts | - | (2 000 000) | **(2 000 000)** | 174 330 | **2 174 330** | |
| Long service awards | - | - | **-** | 705 000 | **705 000** | |
| Employee benefit obligation | 1 148 000 | (94 000) | **1 054 000** | 688 000 | **(366 000)** | X20 |
| | **21 305 000** | **73 444 000** | **94 749 000** | **35 826 351** | **(58 922 649)** | |
| **Non-Current Liabilities** | | | | | | |
| Employee benefit obligation | 19 869 000 | (1 401 000) | **18 468 000** | 17 446 000 | **(1 022 000)** | X22 |
| Long Service Awards | - | - | **-** | 4 393 000 | **4 393 000** | X23 |
| | **19 869 000** | **(1 401 000)** | **18 468 000** | **21 839 000** | **3 371 000** | |
| **Total Liabilities** | **41 174 000** | **72 043 000** | **113 217 000** | **57 665 351** | **(55 551 649)** | |
| **Net Assets** | **70 242 100** | **(58 362 100)** | **11 880 000** | **19 148 352** | **7 268 352** | |
| **Net Assets** | | | | | | |
| **Net Assets Attributable to Owners of Controlling Entity** | | | | | | |
| **Reserves** | | | | | | |
| Accumulated surplus | 123 883 500 | (88 457 500) | **35 426 000** | 19 148 352 | **(16 277 648)** | |

## 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 |
|---|---|---|---|---|---|---|
| **Cash Flow Statement** | | | | | | |
| **Cash flows from operating activities** | | | | | | |
| **Receipts** | | | | | | |
| Grants - LDM & Masilonyana | 148 176 000 | 40 558 000 | **188 734 000** | 157 761 690 | **(30 972 310)** | |
| Interest income | 5 300 000 | - | **5 300 000** | 5 347 789 | **47 789** | |
| Other receipts | 97 000 | - | **97 000** | 548 407 | **451 407** | |
| Grants - Masilonyana | - | - | **-** | 25 308 000 | **25 308 000** | |
| | **153 573 000** | **40 558 000** | **194 131 000** | **188 965 886** | **(5 165 114)** | |
| **Payments** | | | | | | |
| Suppliers and employees | (199 069 000) | 46 011 000 | **(153 058 000)** | (150 080 087) | **2 977 913** | |
| Suppliers | - | - | **-** | (55 556 987) | **(55 556 987)** | |
| Transfers paid - Masilonyana | - | - | **-** | (23 876 192) | **(23 876 192)** | |
| | **(199 069 000)** | **46 011 000** | **(153 058 000)** | **(229 513 266)** | **(76 455 266)** | |
| **Net cash flows from operating activities** | **(45 496 000)** | **86 569 000** | **41 073 000** | **(40 547 380)** | **(81 620 380)** | |
| **Cash flows from investing activities** | | | | | | |
| Purchase of property, plant and equipment | (3 800 000) | 2 000 000 | **(1 800 000)** | (706 208) | **1 093 792** | |
| Proceeds from sale of property, plant and equipment | - | - | **-** | 590 632 | **590 632** | |
| Purchase of other intangible assets | - | - | **-** | (124 520) | **(124 520)** | |
| **Net cash flows from investing activities** | **(3 800 000)** | **2 000 000** | **(1 800 000)** | **(240 096)** | **1 559 904** | |
| Net increase/(decrease) in cash and cash equivalents | (49 296 000) | 88 569 000 | **39 273 000** | (35 001 476) | **(80 060 476)** | |
| Cash and cash equivalents at the beginning of the year | 106 197 000 | (106 197 000) | **-** | 70 619 898 | **70 619 898** | |
| **Cash and cash equivalents at the end of the year** | **56 901 000** | **(17 628 000)** | **39 273 000** | **27 418 072** | **(9 440 578)** | |

# Accounting Policies

### 1. Presentation of Annual Financial Statements

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

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

A summary of the significant accounting policies are disclosed below.

### 1.1 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.

### 1.2 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.

### 1.3 Significant judgements and sources of estimation uncertainty

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

**Impairment testing**

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

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

Value in use of non-cash generating assets
The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependant on the availability of data and the nature of the impairment.

**Useful lives of property, plant and equipment and other assets**

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on industry norm. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality.

# Accounting Policies

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

**Post retirement benefits**

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

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The most appropriate discount rate that reflects the time value of money is with reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 10.

**Effective interest rate**

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

**Allowance for impairment**

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

### 1.4 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

# Accounting Policies

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

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 are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

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

| Item | Depreciation method | Average useful life |
|---|---|---|
| Land | Straight line | Not depreciated |
| Buildings and paving | Straight line | 30-45 years |
| Plant and machinery | Straight line | 5-20 years |
| Furniture and fixtures | Straight line | 5-15 years |
| Motor vehicles | Straight line | 5-20 years |
| Office equipment (including computers) | Straight line | 3-5 years |
| Emergency equipment | Straight line | 5-10 years |
| Other property, plant and equipment | Straight line | 5-10 years |

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

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

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

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

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

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

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

### 1.5 Intangible assets

An asset is identifiable if it either:

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

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

### 1.5 Intangible assets (continued)

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

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

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

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

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 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 | Amortisation method | Average useful life |
|---|---|---|
| Computer software | Straight line | 3 years - indefinite |

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

### 1.6 Investments in controlled entities

In the municipality's separate annual financial statements, investments in controlled entities are carried at cost.

The municipality applies the same accounting for each category of investment.

The municipality recognises a dividend or similar distribution in surplus or deficit in its separate annual financial statements when its right to receive the dividend or similar distribution is established.

Investments in controlled entities that are accounted for in accordance with the accounting policy on Financial instruments in the consolidated annual financial statements, are accounted for in the same way in the controlling entity's separate annual financial statements.

### 1.7 Financial instruments

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

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

### 1.7 Financial instruments (continued)

A concessionary loan is a loan granted to or received by the 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 the 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, the municipality estimates 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 uses 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 entity under conditions that are potentially favourable to the entity.

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

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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

Liquidity risk is the risk encountered by the 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.

### 1.7 Financial instruments (continued)

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 the entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of the entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of the entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the 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;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

**Classification**

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

| **Class** | **Category** |
| --- | --- |
| Cash and cash equivalents | Financial asset measured at amortised cost |
| Receivables from non-exchange transactions | Financial asset measured at amortised cost |

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

| **Class** | **Category** |
| --- | --- |
| Payables from exchange transactions | Financial liability measured at amortised cost |
| Transfers payable - non exchange | Financial liability measured at amortised cost |

# Accounting Policies

### 1.7 Financial instruments (continued)

**Initial recognition**

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

The municipality recognises financial assets using trade date accounting.

**Initial measurement of financial assets and financial liabilities**

The municipality measures a financial asset and financial liability, other than those subsequently measures at fair value, initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures all other financial assets and financial liabilities initially at fair value.

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

- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

### 1.7 Financial instruments (continued)

**Subsequent measurement of financial assets and financial liabilities**

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

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

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 in the case of a financial asset.

**Fair value measurement considerations**

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm’s length exchange motivated by normal operating considerations. Valuation techniques include using recent arm’s length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on municipality-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

**Reclassification**

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

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

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

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

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

**Gains and losses**

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

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

**Impairment and uncollectibility of financial assets**

# Accounting Policies

### 1.7 Financial instruments (continued)

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

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

Financial assets measured at amortised cost:

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

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

Where financial assets are impaired through the use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such financial 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.

Financial assets measured at cost:

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

### 1.7 Financial instruments (continued)

**Derecognition**

**Financial assets**

The municipality derecognises financial assets using trade date accounting.

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

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

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

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

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

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

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

**Financial liabilities**

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

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

### 1.7 Financial instruments (continued)

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

**Presentation**

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

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

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

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

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

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

### 1.8 Statutory receivables

**Identification**

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

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

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

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

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

**Recognition**

The municipality recognises statutory receivables as follows:

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

**Initial measurement**

The municipality initially measures statutory receivables at their transaction amount.

## Accounting Policies

### 1.8 Statutory receivables (continued)

**Subsequent measurement**

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:
- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

**Derecognition**

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

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

### 1.9 Leases

**Operating leases - lessee**

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

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

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

### 1.10 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.

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

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.

**Identification**

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

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

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

**Value in use**

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

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

**Discount rate**

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

**Recognition and measurement (individual asset)**

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

An impairment loss is recognised immediately in surplus or deficit.

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

# Accounting Policies

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

**Cash-generating units**

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

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

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

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

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

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

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

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

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

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

## Accounting Policies

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

**Reversal of impairment loss**

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

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

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

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

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

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

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

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

### 1.11 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:

**1.11 Impairment of non-cash-generating assets (continued)**

- 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.

**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 municipality 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 asset is determined using the following approach:

**Depreciated replacement cost approach**

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

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

**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.

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

### 1.11 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.

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.

### 1.12 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 municipality during a reporting period, the municipality 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 municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality 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 municipality has no realistic alternative but to make the payments.

# Accounting Policies

**1.12 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 the 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**

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

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

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, 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 contribution in the cost of an asset.

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

**1.12 Employee benefits (continued)**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Accounting Policies

**1.12 Employee benefits (continued)**

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

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

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

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

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

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

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

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

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

**Actuarial assumptions**

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

# Accounting Policies

### 1.12 Employee benefits (continued)

**Other long-term employee benefits**

The municipality has an obligation to provide long-term service allowance benefits to all of its employees. According to the rules of the long-term service allowance scheme, which the municipality instituted and operates, an employee (who is on the current conditions of service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities. Actuarial gains and losses on the long-term service awards are recognised in the statement of financial performance.

The amount recognised as a liability for long-term service awards is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality recognises the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which is recognised immediately;
- past service cost, which is recognised immediately; and
- the effect of any curtailments or settlements.

### 1.13 Provisions and contingencies

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

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

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

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 expenditure.

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.

### 1.13 Provisions and contingencies (continued)

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability:
- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- a present obligation that arises from past events but is not recognised because:
  - it is not probable than an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
  - the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 32.

### 1.14 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.

**Interest and investment income**

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

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

Interest charged on debtor accounts are limited to the principal debt as prescribed by the National Credit Act.

### 1.15 Revenue from non-exchange transactions

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

# Accounting Policies

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

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

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

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

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

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

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

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

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

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

**Recognition**

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

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

**Measurement**

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

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

**Transfers**

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

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

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

## Accounting Policies

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

**Gifts and donations, including goods in-kind**

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

**Services in-kind**

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

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

### 1.16 Investment income

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

### 1.17 Comparative figures

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

### 1.18 Unauthorised expenditure

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

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

### 1.19 Fruitless and wasteful expenditure

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

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

### 1.20 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 municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

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

### 1.21 Grants in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:
- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

# Accounting Policies

### 1.21 Grants in aid (continued)

These transfers are recognised in the statement of financial performance as expenses in the period that the events giving raise to the transfer occurred.

### 1.22 Segment information

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

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

**Measurement**

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

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

### 1.23 Commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:
- approved and contracted commitments;
- where the expenditure has been approved and the contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

### 1.24 Budget information

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

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

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 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.

### 1.25 Related parties (continued)

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

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

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

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

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

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

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

### 1.26 Events after the reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the financial statements.

### 1.27 VAT

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

## 2. New standards and interpretations

### 2.1 Standards and interpretations issued

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
|---|---|---|
| • iGRAP 22 Foreign Currency Transactions and Advance Consideration | 01 April 2025 | No material impact in AFS |
| • GRAP 104 (as revised): Financial Instruments | 01 April 2025 | No material impact in AFS |

## 3. Cash and cash equivalents

Cash and cash equivalents consist of:

| | 2025 | 2024 |
|---|---|---|
| Cash on hand | 6 962 | 6 811 |
| Bank balances | 5 610 678 | 9 718 019 |
| Short-term deposits | 21 800 432 | 60 895 068 |
| | **27 418 072** | **70 619 898** |

**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 Bank - cheque account - 134000017 | 5 610 677 | 9 718 019 | 76 212 103 | 5 610 677 | 9 718 019 | 75 922 114 |
| ABSA Bank - fixed account - 2081591664 | - | 60 000 000 | - | - | 60 895 068 | - |
| STANDARD BANK - Fixeddeposit - 24 853 881 0-025 | 21 800 432 | - | 30 000 000 | 21 800 432 | - | 30 275 178 |
| **Total** | **27 411 109** | **69 718 019** | **106 212 103** | **27 411 109** | **70 613 087** | **106 197 292** |

## 4. Receivables from non-exchange transactions

| | 2025 | 2024 |
|---|---|---|
| Council receivables | 31 227 209 | 31 173 144 |
| Less: Allowance for impairment | (31 157 866) | (31 157 866) |
| | **69 343** | **15 278** |

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

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

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

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

| | 2025 | 2024 |
|---|---|---|
| 1 month past due | 69 343 | 15 278 |

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

**Reconciliation of allowance for impairment**

| | 2025 | 2024 |
|---|---|---|
| Opening balance | (31 158 866) | (31 001 754) |
| Provision for impairment | (133 575) | (157 112) |
| | **(31 292 441)** | **(31 158 866)** |

# Notes to the Annual Financial Statements

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

## 5. VAT receivable

| | | |
|---|---|---|
| VAT receivable | 377 270 | 2 477 829 |

## Notes to the Annual Financial Statements

Figures in Rand

### 6. Property, plant and equipment

| | 2025 | | | 2024 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Land | 1 140 000 | - | 1 140 000 | 1 140 000 | - | 1 140 000 |
| Buildings | 75 930 618 | (40 316 903) | 35 613 715 | 75 930 366 | (37 730 245) | 38 200 121 |
| Plant and machinery | 7 555 969 | (2 244 586) | 5 311 383 | 7 555 908 | (1 193 352) | 6 362 556 |
| Furniture and fixtures | 6 634 914 | (4 962 171) | 1 672 743 | 6 634 226 | (5 316 900) | 1 317 326 |
| Motor vehicles | 2 189 412 | (1 149 384) | 1 040 028 | 2 189 412 | (464 326) | 1 725 086 |
| Office equipment | 11 491 073 | (7 477 100) | 4 013 973 | 11 491 055 | (6 522 516) | 4 968 539 |
| Emergency equipment | 58 722 | (50 155) | 8 567 | 58 797 | (47 532) | 11 265 |
| **Total** | **105 000 708** | **(56 200 299)** | **48 800 409** | **104 999 764** | **(51 274 871)** | **53 724 893** |

# Notes to the Annual Financial Statements

Figures in Rand

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

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

| | Opening balance | Additions | Disposals | Depreciation on disposals | Depreciation | Total |
|---|---|---|---|---|---|---|
| Land | 1 140 000 | - | - | - | - | 1 140 000 |
| Buildings | 38 263 672 | - | (121 865) | 108 973 | (2 637 063) | 35 613 715 |
| Plant and equipment | 5 895 056 | - | (6 265) | 5 124 | (582 611) | 5 311 383 |
| Furniture and fixtures | 1 848 394 | 140 800 | (150 294) | 129 336 | (295 493) | 1 672 743 |
| Motor vehicles | 1 725 081 | - | (691 497) | 99 120 | (93 025) | 1 040 028 |
| Office equipment | 4 840 347 | 565 408 | (265 416) | 206 898 | (1 333 613) | 4 013 973 |
| Emergency equipment | 11 216 | - | - | - | (2 999) | 8 567 |
| | **53 723 766** | **706 208** | **(1 235 337)** | **549 451** | **(4 944 804)** | **48 800 409** |

## Notes to the Annual Financial Statements

Figures in Rand

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

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

| | Opening balance | Additions | Disposals | Transfers | Depreciation on disposals | Depreciation | Total |
|---|---|---|---|---|---|---|---|
| Land | 1 140 000 | - | - | - | - | - | 1 140 000 |
| Buildings | 40 493 195 | 448 606 | - | (213 390) | - | (2 528 289) | 38 200 122 |
| Plant and equipment | 4 855 146 | 1 942 317 | - | - | - | (434 909) | 6 362 554 |
| Furniture and fixtures | 1 571 862 | 25 322 | - | - | - | (279 857) | 1 317 327 |
| Motor vehicles | 1 861 875 | - | - | - | - | (136 790) | 1 725 085 |
| Office equipment | 1 524 781 | 4 564 663 | (145 618) | - | 112 921 | (1 088 209) | 4 968 538 |
| Emergency equipment | 15 498 | - | - | - | - | (4 233) | 11 265 |
| | **51 462 357** | **6 980 908** | **(145 618)** | **(213 390)** | **112 921** | **(4 472 287)** | **53 724 891** |

**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** | | |
| Contracted services | 470 345 | 1 475 409 |

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.

### 7. Intangible assets

| | 2025 | | | 2024 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software | 1 893 579 | (1 745 070) | 148 509 | 1 769 059 | (1 652 753) | 116 306 |

**Reconciliation of intangible assets - 2025**

| | Opening balance | Additions | Amortisation | Total |
|---|---|---|---|---|
| Computer software, other | 116 306 | 124 520 | (92 317) | 148 509 |

**Reconciliation of intangible assets - 2024**

| | Opening balance | Additions | Amortisation | Total |
|---|---|---|---|---|
| Computer software, other | 53 088 | 120 600 | (57 382) | 116 306 |

# Notes to the Annual Financial Statements

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

## 8. Interests in other entities

### Investments in controlled entities

| Name of company | Held by | % ownership interest 2025 | % ownership interest 2024 | Carrying amount 2025 | Carrying amount 2024 |
|---|---|---|---|---|---|
| Lejwe Le Putswa Development Agency | Lejweleputswa District Municipality | 100,00 % | 100,00 % | 100 | - |
| | | | | 100 | - |
| | | | | 100 | - |

## 9. Payables from exchange transactions

| | 2025 | 2024 |
|---|---|---|
| Trade payables and accruals | 6 093 439 | 9 687 664 |
| Accrued leave pay | 16 092 292 | 13 411 723 |
| Accrued bonus | 5 084 725 | 5 425 572 |
| Retention | 72 973 | 72 973 |
| | **27 343 429** | **28 597 932** |

# Notes to the Annual Financial Statements

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

**10. Employee benefit obligations**

**Defined benefit plans - General information**

**Defined benefit plan**

The plan is a post employment medical benefit plan.

**Post retirement medical aid plan**

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current conditions of service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates as unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2025 by ZAQ Actuaries. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:
* Bonitas
* Hosmed
* Keyhealth
* LA Health
* Samwumed

**The members of the post-employment health care benefit plan are made up as follows:**

| | | |
|---|---|---|
| In service members (employees) | 123 | 126 |
| In service members (employees) non-members | 13 | 11 |
| | - | - |
| | 136 | 137 |

**Long service awards**

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2025 by ZAQ Actuaries. The projected unit credit funding method has been used to determine the past - service liabilities at the valuation date and the projected annual expense in the year following the valuation date.
The expected value of each employee's long service award 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. We have converted the awarded leave days into a percentage of the employee's annual salary. The conversion is based on a 250 working day year.

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

### 10. Employee benefit obligations (continued)

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

| | 2025 | 2024 |
|---|---|---|
| **Carrying value** | | |
| Employee benefit obligation (non-current portion) | 17 446 000 | 16 651 000 |
| Employee benefit obligation (current portion) | 688 000 | 523 000 |
| Long service awards (non-current portion) | 4 393 000 | 4 185 000 |
| Long service awards (current portion) | 705 000 | 1 348 000 |
| | **23 232 000** | **22 707 000** |

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

| | 2025 | 2024 |
|---|---|---|
| Opening balance | 17 174 000 | 16 128 000 |
| Current service cost | 807 000 | 704 000 |
| Interest cost | 2 128 000 | 2 092 000 |
| Actuarial (gain)/loss | (1 523 498) | (1 379 010) |
| Benefits paid | (451 502) | (370 990) |
| | **18 134 000** | **17 174 000** |

**Changes in the present value of the long service award obligation are as follows:**

| | 2025 | 2024 |
|---|---|---|
| Opening balance | 5 533 000 | 4 889 000 |
| Current Service Cost | 586 000 | 510 000 |
| Interest Cost | 576 000 | 508 000 |
| Actuarial (gain) / losses | (349 000) | 297 507 |
| Benefits paid | (1 248 000) | (671 507) |
| | **5 098 000** | **5 533 000** |

**Key assumptions used**

Although we have used the yield curve for our discount rates and our corresponding inflation rates, for indicative purposes we show the discount rate and CPI that corresponds to the implied duration of our liability. The implied duration of the liability for this valuation is 11,21 years. It is however important to note that this is solely for indicative purposes as we use the entire yield curve to obtain our financial variables:

| | 2025 | 2024 |
|---|---|---|
| Discount rates used | 12,28 % | 12,33 % |
| Consumer price inflation | 6,71 % | 6,89 % |
| Medical aid contribution inflation | 7,71 % | 7,89 % |
| Net effective discount rate | 4,24 % | 4,12 % |

**10. Employee benefit obligations (continued)**

**Sensitivity analysis**

**Sensitivity analysis**

The actual cost to the Municipality will be dependent on actual future levels of assumed variables.
In order to illustrate the sensitivity of our results to changes in certain key variables, we have recalculated the liabilities using the following assumptions:
20% increase/decrease in the assumed level of mortality;
1% increase/decrease in the Medical Aid inflation.
1% increase/decrease in the discount rate
1-year increase/decrease in the average retirement age

**Mortality rate**
Deviations from the assumed level of mortality experience of the current employees and the continuation members (pensioners) will have a large impact on the actual cost to the Municipality. If the actual rate of mortality turns out higher than the rates assumed in the valuation basis, the cost to the Municipality in the form of subsidies will reduce and vice versa.
We have illustrated the effect of higher and lower mortality rates by increasing and decreasing the mortality rates by 20%. The effect is as follows:

| | -20% Mortality rate | Valuation Assumption | +20% Mortality rate |
| --- | --- | --- | --- |
| Total Accrued Liability | 18 287 000 | 18 134 000 | 17 991 000 |
| Interest Cost | 2 138 000 | 2 119 000 | 2 102 000 |
| Service Cost | 703 000 | 687 000 | 673 000 |
| | - | - | - |

**Discount rate**

Assumed discount rate have a significant effect on the amounts recognised in surplus or deficit. A one percentage point The value of the liability is directly dependent on the level of the discount rate used to discount the future expected cashflows. If the discount rate is higher the present value of the liability will be lower and vice versa.
We have tested the effect of a 1% p.a. change in the discount rate assumption. The effect is as follows::

| | -1% Discount rate | Valuation Assumption | +1% Discount rate |
| --- | --- | --- | --- |
| Total Accrued Liability | 20 142 000 | 18 134 000 | 16 439 000 |
| Interest Cost | 2 360 000 | 2 119 000 | 1 916 000 |
| Service Cost | 794 000 | 687 000 | 601 000 |

**Average retirement age**

The liability value is directly influenced by the assumption about the average retirement age of members as this determines the length these benefits are paid out to members.
We have tested the effect of a one-year increase and decrease in the assumed average retirement age. The effect is as follows:

| | -1-year Average Retirement Age | Valuation Assumption | +1-year Average Retirement Age |
| --- | --- | --- | --- |
| Total Accrued Liability | 19 663 000 | 18 134 000 | 16 403 000 |
| Interest Cost | 2 294 000 | 2 119 000 | 1 924 000 |
| Service Cost | 671 000 | 687 000 | 704 000 |

**Medical aid inflation**

The cost of the subsidy after retirement is dependent on the increase in the contributions to the medical aid scheme before and after retirement. The rate at which these contributions increase will thus have a direct effect on the liability of future retirees.
We have tested the effect of a 1% p.a. change in the medical aid inflation assumption. The effect is as follows::

# Notes to the Annual Financial Statements

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

### 10. Employee benefit obligations (continued)

| | -1% Medical aid inflation | Valuation Assumption | +1% Medical aid inflation |
|---|---|---|---|
| Total Accrued Liability | 16 800 000 | 17 174 000 | 17 449 000 |
| Interest Cost | 2 081 000 | 2 128 000 | 2 162 000 |
| Service Cost | 794 000 | 807 000 | 816 000 |

### 11. Transfers payable (non-exchange)

| | 2025 | 2024 |
|---|---|---|
| Masilonyana grant - MIG | 6 915 592 | 5 483 724 |

### 12. Unspent conditional grants and receipts

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

| **Unspent conditional grants and receipts** | | |
|---|---|---|
| LGSETA | 27 020 | 27 020 |
| Rural Roads Asset Management Systems Grant | 147 310 | 33 222 |
| | **174 330** | **60 242** |

**Movement during the year**

| | | |
|---|---|---|
| Balance at the beginning of the year | 60 242 | 1 056 723 |
| Additions during the year | 6 732 008 | 4 879 000 |
| Income recognition during the year | - | (5 875 481) |
| | **6 792 250** | **60 242** |

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

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

See note 18 for reconciliation of grants from National/Provincial Government.

### 13. Revenue

| | | |
|---|---|---|
| Licences and permits | 16 500 | 93 500 |
| Proceeds from disposal of property, plant and equipment | 18 362 | 25 330 |
| Operational revenue | 531 907 | 361 280 |
| Interest received | 5 347 789 | 9 819 349 |
| Government grants & subsidies | 157 761 690 | 153 977 481 |
| | **163 676 248** | **164 276 940** |

| **The amount included in revenue arising from exchanges of goods or services are as follows:** | | |
|---|---|---|
| Licences and permits | 16 500 | 93 500 |
| Proceeds from disposal of property, plant and equipment | 18 362 | 25 330 |
| Operational revenue | 531 907 | 361 280 |
| Interest received - investment | 5 347 789 | 9 819 349 |
| | **5 914 558** | **10 299 459** |

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

### 13. Revenue (continued)

| | | |
|---|---|---|
| **The amount included in revenue arising from non-exchange transactions is as follows:** | | |
| **Taxation revenue** | | |
| Transfers and subsidies | - | 153 977 481 |
| **Transfer revenue** | | |
| Government grants & subsidies | 157 761 690 | - |
| | **157 761 690** | **153 977 481** |

### 14. Licences and permits

| | | |
|---|---|---|
| Atmospheric Emissions Licences | 16 500 | 93 500 |

### 15. Proceeds from disposal of property, plant and equipment

| | | |
|---|---|---|
| Proceeds from disposal of property, plant and equipment | 18 362 | 25 330 |

### 16. Operational revenue

| | | |
|---|---|---|
| Commission received | 261 440 | 129 903 |
| Sundry income | 270 467 | 231 377 |
| | **531 907** | **361 280** |

### 17. Investment revenue

| | | |
|---|---|---|
| **Interest revenue** | | |
| Interest received - investment and cash and cash equivalents | 5 336 683 | 9 660 663 |
| Interest received - trading | 11 106 | 158 686 |
| | **5 347 789** | **9 819 349** |

# Notes to the Annual Financial Statements

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

## 18. Government grants & subsidies

**Operating grants**

| | | |
|---|---|---|
| Equitable share | 153 026 000 | 149 131 703 |
| Expanded Public Works Programme Grant | 1 322 000 | 1 428 000 |
| Local Government Financial Management Grant | 1 000 000 | 1 000 000 |
| Rural Roads Asset Management Systems Grant | 2 413 690 | 2 417 778 |
| | **157 761 690** | **153 977 481** |

**Conditional and Unconditional**

Included in above are the following grants and subsidies received:

| | | |
|---|---|---|
| Conditional grants received | 4 735 690 | 4 845 778 |
| Unconditional grants received | 153 026 000 | 149 131 703 |
| | **157 761 690** | **153 977 481** |

**Expanded Public Works Programme Grant**

| | | |
|---|---|---|
| Current-year receipts | 1 322 000 | 1 428 000 |
| Conditions met - transferred to revenue | (1 322 000) | (1 428 000) |
| | **-** | **-** |

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

**LG SETA Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 27 020 | 27 020 |

Conditions still to be met - remain liabilities (see note 12).

The purpose of the grant is to facilitate growth and performance of the local government sector. Expand employment opportunities in the local government sector to adapt to changes in the economy and needs of the country through skills development.

**Rural Roads Asset Management Systems Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 33 222 | 636 985 |
| Current-year receipts | 2 561 000 | 2 451 000 |
| Conditions met - transferred to revenue | (2 413 690) | (2 417 778) |
| Offset against equitable share | (33 222) | (636 985) |
| | **147 310** | **33 222** |

Conditions still to be met - remain liabilities (see note 12).

The purpose of the grant is, to assist district municipalities to set up rural roads asset management systems, and collect road, bridges and traffic data on municipal road networks in line with the Road Infrastructure Strategic Framework for South Africa..

**Local Government Financial Management Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | 392 718 |
| Current-year receipts | 1 000 000 | 1 000 000 |

# Notes to the Annual Financial Statements

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

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

| | | |
| --- | --- | --- |
| Conditions met - transferred to revenue | (1 000 000) | (1 000 000) |
| Offset against equitable share | - | (392 718) |
| | - | - |

Conditions still to be met - remain liabilities (see note 12).

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

# Notes to the Annual Financial Statements

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

## 19. Employee related costs

| | | |
|---|---|---|
| Bargaining council | 24 151 | 20 894 |
| Basic | 79 677 844 | 71 894 681 |
| Bonus - 13th Cheques | 6 512 017 | 5 588 977 |
| Cellphone allowance | 508 767 | 361 232 |
| Contribution to pension and provident fund | 13 642 292 | 11 482 518 |
| Medical aid - company contributions | 6 837 026 | 5 834 503 |
| Overtime payments | 73 646 | 127 036 |
| Post retirement benefits | 2 935 000 | 2 797 843 |
| Group Life Insurance | 1 609 101 | 1 658 455 |
| Housing Benefits and allowances | 580 347 | 584 303 |
| Leave pay provision charge | 3 873 938 | 4 520 993 |
| Long service awards | 1 212 374 | 1 018 000 |
| Standby allowance | 1 542 306 | 1 181 437 |
| Travel allowance | 15 572 777 | 13 690 631 |
| UIF | 386 998 | 355 600 |
| Senior Management | 5 872 868 | 4 859 349 |
| | **140 861 452** | **125 976 452** |

**Remuneration of Mr ML Makhetha - Municipal Manager**

| | | |
|---|---|---|
| Annual Remuneration | 893 715 | 628 955 |
| Car Allowance | 287 624 | 203 078 |
| Performance Bonuses | 209 649 | 151 602 |
| Contributions to UIF, Medical and Pension Funds | 241 472 | 164 718 |
| Cellphone Allowance | 28 685 | 27 328 |
| Acting Allowance and other payments | - | 25 496 |
| Bonus - 13th Cheque | 74 476 | 18 121 |
| 13th cheque provision | - | 36 242 |
| Backpay | 57 275 | 5 214 |
| | **1 792 896** | **1 260 754** |

**Remuneration of Mr MK Khoabane - Chief Finance Officer**

| | | |
|---|---|---|
| Annual Remuneration | 1 035 440 | 749 439 |
| Car Allowance | 180 000 | 134 516 |
| Performance Bonuses | 171 371 | 123 977 |
| Contributions to UIF, Medical and Pension Funds | 2 125 | 1 594 |
| Cellphone Allowance | 26 474 | 20 800 |
| Acting Allowance and other payments | - | 39 281 |
| Backpay | 50 941 | 27 427 |
| | **1 466 351** | **1 097 034** |

**Remuneration of Me SC Abrams - Manager Corporate Services**

| | | |
|---|---|---|
| Annual Remuneration | 823 556 | 534 343 |
| Car Allowance | 91 988 | 128 902 |
| Performance Bonuses | 154 553 | 99 742 |
| Contributions to UIF, Medical and Pension Funds | 113 901 | 4 683 |
| Cellphone allowance | 18 702 | 12 000 |
| Acting Allowance and other payments | 9 602 | 23 507 |
| Bonus - 13th Cheque | 68 630 | - |
| Backpay | 37 071 | 9 142 |
| Bonus provision | - | 35 388 |
| | **1 318 003** | **847 707** |

### 19. Employee related costs (continued)

**Remuneration of Me M. Sello - Manager Environmental Health and Disaster Management - Appointed from the 1st June 2025**

| | 2025 | 2024 |
|---|---|---|
| Annual Remuneration | 76 819 | 372 484 |
| Car Allowance | 15 000 | 72 392 |
| Performance Bonuses | 12 879 | 84 459 |
| Contributions to UIF, Medical and Pension Funds | 177 | 118 440 |
| Cellphone Allowance | 3 200 | 3 005 |
| Housing Allowance | - | 35 000 |
| 13th Cheque Provision | - | 31 040 |
| Acting Allowance and other payments : Mr S. Nzuume ( Acting official during vacancy period) | 30 053 | 55 148 |
| Backpay | - | 42 495 |
| | **138 128** | **814 463** |

**Remuneration of Mr E. Lesenyelo -Manager LED, Planning and Tourism**

| | 2025 | 2024 |
|---|---|---|
| Annual Remuneration | 576 489 | 374 040 |
| Car Allowance | 143 853 | 95 227 |
| Performance Bonuses | 135 234 | 87 276 |
| Contributions to UIF, Medical and Pension Funds | 137 061 | 82 963 |
| Cellphone Allowance | 17 532 | 12 189 |
| Subsidy | 60 000 | 40 000 |
| Bonus | 48 041 | - |
| Acting Allowance and other payments | - | 66 242 |
| Backpay | 39 275 | 50 283 |
| Bonus provision | - | 31 170 |
| | **1 157 485** | **839 390** |

### 20. Remuneration of councillors

| | 2025 | 2024 |
|---|---|---|
| Executive mayor | 1 084 386 | 1 038 730 |
| Speaker | 876 874 | 837 187 |
| Mayoral committee members | 5 098 784 | 4 821 212 |
| Councillors | 5 023 313 | 4 463 221 |
| | **12 083 357** | **11 160 350** |

| **Executive Mayor** | Basic | Cellphone Allowance | Pension and Medical Aid | Backpay | Total |
|---|---|---|---|---|---|
| Cllr Ntakumbana | 836 240 | 46 800 | 160 976 | 40 369 | 1 084 385 |

| **Speaker** | Basic | Cellphone Allowance | Pension and Medical Aid | Backpay | Total |
|---|---|---|---|---|---|
| Cllr Dikane | 743 888 | 46 800 | 49 043 | 37 143 | 876 874 |

| **Mayoral committee members** | Basic | Travel Allowance | Cellphone Allowance | Pension and Medical Aid | Back pay | Total |
|---|---|---|---|---|---|---|
| 7 Members | 2 924 644 | 1 193 153 | 326 175 | 506 234 | 148 578 | 5 098 784 |
| | - | - | - | - | - | - |
| **Total** | **2 924 644** | **1 193 153** | **326 175** | **506 234** | **148 578** | **5 098 784** |

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

### 20. Remuneration of councillors (continued)

| Part time councillors | Basic+ PAYE | Travel Allowance | Cellphone and data allowance | Pension and Medical Aid | Backpay | Total |
|---|---|---|---|---|---|---|
| 15 Members | 2 148 966 | 836 272 | 437 415 | 376 608 | 141 389 | 3 940 650 |
| Session allowances | 1 082 663 | - | - | - | - | 1 082 663 |
| | **3 231 629** | **836 272** | **437 415** | **376 608** | **141 389** | **5 023 313** |

### 21. Transfer and subsidies

| | 2025 | 2024 |
|---|---|---|
| Allocation in kind: Development Agency | 198 835 | 172 200 |
| Allocation in kind: Households | 3 969 811 | 5 217 160 |
| Allocation in kind: Local Municipalities | - | 1 496 696 |
| Allocation in kind: Private enterprises | 1 338 533 | 1 123 882 |
| Monetary allocation: Development Agency | 5 926 974 | 8 005 897 |
| | **11 434 153** | **16 015 835** |

### 22. Depreciation and amortisation

| | 2025 | 2024 |
|---|---|---|
| Property, plant and equipment | 4 853 123 | 4 472 286 |
| Intangible assets | 183 998 | 57 382 |
| | **5 037 121** | **4 529 668** |

### 23. Impairment of assets

| | | 2025 | 2024 |
|---|---|---|---|
| **Impairments** | | | |
| Trade and other receivables | - | - | 156 112 |
| **Reversal of impairments** | | | |
| Property, plant and equipment | | 27 414 | - |
| **Total impairment losses (recognised) reversed** | | **27 414** | **156 112** |

### 24. Operating lease expenditure

| | 2025 | 2024 |
|---|---|---|
| **Equipment** | | |
| Contractual amounts | 2 473 675 | 730 122 |

### 25. Inventory consumed

| | 2025 | 2024 |
|---|---|---|
| Printing, stationery, personal protective equipment and cleaning material | 1 570 663 | 3 306 123 |

### 26. Contracted services

| | 2025 | 2024 |
|---|---|---|
| **Outsourced Services** | | |
| Administrative and Support Staff | 336 000 | 324 250 |
| Litter Picking and Street Cleaning | 5 201 667 | 5 014 447 |
| Transport Services | 191 700 | - |
| **Consultants and Professional Services** | | |
| Business and Advisory | 884 377 | 306 983 |
| Infrastructure and Planning | 2 413 690 | 2 682 224 |
| Laboratory Services | 250 522 | 213 245 |
| Legal Cost | 5 050 815 | 5 725 637 |

# Notes to the Annual Financial Statements

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

### 26. Contracted services (continued)

| | | |
|---|---|---|
| **Contractors** | | |
| Artists and Performers | 667 370 | - |
| Catering Services | 2 315 678 | 3 635 954 |
| Employee Wellness | 180 491 | 24 000 |
| Event Promoters | - | 344 442 |
| Maintenance of Buildings and Facilities | 400 643 | 1 354 957 |
| Maintenance of Equipment | 69 702 | 120 452 |
| Plants, Flowers and Other Decorations | - | 67 080 |
| Transportation | 1 583 295 | 3 350 241 |
| Safeguard and Security | 1 623 741 | 1 214 633 |
| | **21 169 691** | **24 378 545** |

### 27. Operational cost

| | | |
|---|---|---|
| Advertising | 668 620 | 845 587 |
| Auditors remuneration | 4 541 674 | 3 925 859 |
| Bank charges | 106 620 | 90 655 |
| Bursaries | 545 545 | 910 266 |
| Communication | 171 353 | 243 461 |
| Entertainment | - | 264 956 |
| External computer services | 1 780 352 | 1 421 059 |
| Fuel and oil | 555 699 | 640 066 |
| Hire Charges | 1 892 536 | 6 081 970 |
| Insurance | 432 504 | 358 690 |
| Learnerships and internships | 1 613 166 | 1 330 898 |
| License | 4 409 | 11 084 |
| Municipal services | 1 034 544 | 972 302 |
| Registration fees | - | 348 138 |
| Printing and publications | 4 320 | - |
| Registration fees | 702 087 | - |
| Skills development levy | 1 494 006 | 1 227 550 |
| Subscriptions and membership fees | 1 461 332 | 64 451 |
| Travel and subsistence | 3 184 362 | 4 160 711 |
| Uniforms | 98 230 | - |
| Workmens Compensation Fund | 665 715 | 583 018 |
| | **20 957 074** | **23 480 721** |

### 28. Related parties

| | |
|---|---|
| Relationships | |
| Controlling entity | Lejweleputswa District Municipality |
| Controlled entities | Refer to note 8 |

**Related party balances**

| | | |
|---|---|---|
| **Investments** | | |
| Lejwe Le Putswa Development Agency SOC Ltd | 100 | 100 |
| | | |
| **Transfers** | | |
| Lejwe Le Putswa Development Agency SOC Ltd | 5 926 974 | 8 005 897 |

### 29. Financial instruments disclosure

**Categories of financial instruments**

**2025**

**Financial assets**

| | At amortised cost | Total |
|---|---|---|
| Other receivables from non-exchange transactions | 69 343 | 69 343 |
| Cash and cash equivalents | 27 418 072 | 27 418 072 |
| | **27 487 415** | **27 487 415** |

**Financial liabilities**

| | At amortised cost | Total |
|---|---|---|
| Trade and other payables from exchange transactions | 6 166 412 | 6 166 412 |
| Taxes and transfers payable (non-exchange) | 6 915 592 | 6 915 592 |
| | **13 082 004** | **13 082 004** |

**2024**

**Financial assets**

| | At amortised cost | Total |
|---|---|---|
| Other receivables from non-exchange transactions | 15 278 | 15 278 |
| Cash and cash equivalents | 70 619 898 | 70 619 898 |
| | **70 635 176** | **70 635 176** |

**Financial liabilities**

| | At amortised cost | Total |
|---|---|---|
| Trade and other payables from exchange transactions | 9 760 637 | 9 760 637 |
| Taxes and transfers payable (non-exchange) | 5 483 724 | 5 483 724 |
| | **15 244 361** | **15 244 361** |

# Notes to the Annual Financial Statements

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

### 30. Cash used in operations

| | | |
| --- | --- | --- |
| Deficit | (50 957 057) | (44 373 126) |
| **Adjustments for:** | | |
| Depreciation and amortisation | 5 037 121 | 4 529 668 |
| Gain (loss) on sale of assets and liabilities | 644 705 | (2 354) |
| Interest received: non cash | - | 158 686 |
| Impairment | (27 414) | 156 112 |
| Movements in retirement benefit assets and liabilities | 525 000 | 1 046 000 |
| Movement in long service awards | - | (644 000) |
| Non-cash journals | - | 1 610 188 |
| Offset against equitable share | 33 222 | (1 029 703) |
| Current service cost | 1 393 000 | (1 214 000) |
| Actuarial gain or loss | (1 626 000) | 1 081 503 |
| Non-cash:Net income (losses) recognised directly in net assets | - | 492 818 |
| **Changes in working capital:** | | |
| Other receivables from non-exchange transactions | (54 066) | 246 218 |
| Payables from exchange transactions | (1 254 503) | 3 962 627 |
| VAT | 2 100 559 | 988 505 |
| Taxes and transfers payable (non-exchange) | - | 5 483 724 |
| Unspent conditional grants and receipts | - | (994 083) |
| Movement in Taxes and transfers payable | 1 431 868 | - |
| Movement in Unspent conditional grants and receipts | 114 088 | - |
| | **(42 639 477)** | **(28 501 217)** |

### 31. Commitments

Due between 0 - 1 year R 0

Due between 1 - 5 years R 8 455 211

**Authorised expenditure**

| | | |
| --- | --- | --- |
| **Already contracted for but not provided for** | | |
| • Swift Silliker | 665 372 | - |
| • Gerox Trading | 2 893 136 | - |
| • Fleet Africa | 4 038 096 | - |
| • Calandra Trading | (3 194 850) | - |
| • Awali Engineering | 1 083 432 | 3 747 024 |
| • Kunene Makopo Risk Solutions | 492 772 | - |
| • ZT Security Services | 2 477 253 | 4 415 593 |
| | **8 455 211** | **8 162 617** |

| | | |
| --- | --- | --- |
| **Total commitments** | | |
| Already contracted for but not provided for | 8 455 211 | 8 162 617 |

**Narrative**

| | | |
| --- | --- | --- |
| **Total commitments** | | |
| Authorised capital expenditure | 8 455 211 | 8 162 617 |

The municipality has entered into contract(s) with hybrid values ( Renatl and Usage ),This being said, the contracted amount is fixed and debited with fixed monthly deductions while the usage fluctuattes monthly which ultimately gets to exceed the contracted value. The affected contracts are for:

- Calandra Trading
- Fleet Africa
- Gerox Trading

# Notes to the Annual Financial Statements

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

### 32. Contingencies

1) Litigation is in process where a claim for damages was instituted against Lejweleputswa District Municipality in respect of damages to their vehicle resulting from a pothole. The potential liability is R36 182.

2) An application was received from the Department of Labour for non-compliance with the Employment Equity Act, however, the potential liability is provisionally closed as the Director General did not prosecute the matter

3) Two employees are claiming overtime.The potential liability is R 1 608 708.

4) Litigation is in process where a claim for damages was instituted against Masilonyana Local Municipality and Lejweleputswa District Municipality in respect of damages resulting from a fire. LDM is being sued as a second defendant. The potential liability is R579 783

5) Damages claimed due to veld fires. Damages claimed for G Nell and Willemse; R5 566 179.68

6) Damages claimed due to veldfire. The following damages are claimed by the respective claimants: HJ Linde R817 083.33; HJ Linde N.O and Others R 96 267.74; HJ Linde N.O and 2 Others R756 052.21; Johan Du Plesis R2 285 448.08; Scheerpan Farm R1 828 505.44; M Labuschagne N.O and Others R5 898 538.30; NJ De Kock R1 567 332.72

7) Damages claimed due to veldfire. Damages claimed R2 262 609.72

8) Damages claimed due to veldfire. Damages claimed; JJ Haasbroek R6 200 969.91 and Vleipan R8 357 808.99.

9) B.ERASMUS VS LEJWELEPUTSWA DISTRICT MUNICIPALITY//LDM Law Firm Rep:Sesele Attorneys R476 329

| **Contingent liabilities** | | |
|---|---|---|
| 1) Riebeeckstad Makelaars // LDM Law Firm Rep:Finger Attorneys | 36 182 | 36 182 |
| 2) Lejweleputswa District Municipality // LDM Law Firm Rep:Finger Attorneys | - | 1 300 000 |
| 3) Mahlaku & Ponya // Lejweleputswa District Municipality//LDM Law Firm Rep:Finger Attorneys | 1 608 709 | 1 608 709 |
| 4) BENNITA CHRISTINA EARLE AND FIVE OTHERS// LDM Law Firm Rep:Sesele Attorneys | 579 783 | 579 783 |
| 5) G.NEL N.O; S.WILLEMSE N.O; B.ERASMUS VS LEJWELEPUTSWA DISTRICT MUNICIPALITY//LDM Law Firm Rep:Sesele Attorneys | 5 566 180 | 5 566 180 |
| 6) HJ LINDE; HJ LINDE N.O AND OTHERS; HJ LINDE N.O AND 2 OTHERS; M LABUSCHAGNE N.O AND OTHERS; SCHEERPAN FARM PTY LTD; JOHAN DU PLESIS; NJ DE KOCK VS LDM//LDM Law Firm Rep:Sesele Attorneys | 12 493 175 | 13 249 228 |
| 7) JP VAN SCHALKWYK VS LEJWELEPUTSWA DISTRICT MUNICIPALITY//LDM Law Firm Rep:Sesele Attorneys | 2 262 610 | 2 262 610 |
| 8) JJ HAASBROEK AND VLEIPAN VS LEJWELEPUTSWA DISTRICT MUNICIPALITY//LDM Law Firm Rep:Sesele Attorneys | 14 558 779 | 14 558 779 |
| 9) B.ERASMUS VS LEJWELEPUTSWA DISTRICT MUNICIPALITY//LDM Law Firm Rep:Sesele Attorneys | 476 329 | - |
| | **37 581 747** | **39 161 471** |

## 33. Risk management

**Financial risk management**

The municipality’s activities expose it to a variety of financial risks: credit risk and liquidity risk and market risk.

**Liquidity risk**

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

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

| At 30 June 2025 | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|
| Payables from exchange transactions | 27 323 421 | - | - | - |
| Transfers payable (non-exchange) | 6 915 592 | - | - | - |

| At 30 June 2024 | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|
| Payables from exchange transactions | 28 597 932 | - | - | - |
| Transfers payable (non-exchange) | 5 483 724 | - | - | - |

**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.

## 34. Going concern

Management made an assessment on Lejweleputswa District Municipality’s ability to continue as a going concern. Based on the assessment management identified the following conditions that may cast significant doubt on municipality's ability to continue as a going concern:

**Operating deficit assessment**

We draw attention to the fact that at 30 June 2025:

The municipality had a deficit of R 50 957 057 (2024: R 44 373 126)

**Liquidity assessment**

Based on the current assets and current liabilities values on the balance sheet we calculated the following ratios to assess liquidity of the municipality:

The municipality's total current liabilities exceed its current assets by R7 961 666.

Notwithstanding the above negative indicators there is an assurance that municipal activities will still continue to meet its statutory obligation for the foreseeable future based on the following:

As at 30 June 2025, the municipality had an accumulated surplus of R 19 148 352 and that the economic entity's total assets exceed its liabilities by R 19 148 352.

### 34. Going concern (continued)

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that 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 Free State Provincial Treasury assessed the municipality's 2025/2026 annual budget and concluded that the budget is funded, which means that the municipality will be able to fund it's operations for at least the next 12 months.

### 35. Unauthorised expenditure

| | 2025 | 2024 |
|---|---|---|
| Opening balance as previously reported | 3 724 735 | 2 912 252 |
| Add: Unauthorised expenditure - current | - | 812 483 |
| **Closing balance** | **3 724 735** | **3 724 735** |

**Unauthorised expenditure: Budget overspending – per municipal vote**

| | 2025 | 2024 |
|---|---|---|
| Vote 3: Planning and development - Capital Expenditure | - | 803 |
| Vote 5: Health - Capital Expenditure | - | 42 506 |
| Vote 3: Planning and development - Operational Expenditure | - | 177 333 |
| Vote 5: Health - Operational Expenditure | - | 591 842 |
| | **-** | **812 484** |

### 36. Irregular expenditure

| | 2025 | 2024 |
|---|---|---|
| Opening balance as previously reported | 48 596 645 | 24 740 800 |
| Add: Irregular expenditure - current | 17 619 181 | 16 786 968 |
| Add: Irregular expenditure - prior period | - | 7 068 877 |
| Less: Amount written off - prior period | (41 588 748) | - |
| **Closing balance** | **24 627 078** | **48 596 645** |

### 37. Fruitless and wasteful expenditure

| | 2025 | 2024 |
|---|---|---|
| Opening balance as previously reported | 207 336 | - |
| Add: Fruitless and wasteful expenditure identified - current | 45 243 | 207 336 |
| **Closing balance** | **252 579** | |

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

**Contributions to organised local government**

| | 2025 | 2024 |
|---|---|---|
| Current year subscription / fee | 1 403 333 | 1 395 644 |
| Amount paid - current year | (1 403 333) | (1 395 644) |
| | - | - |

# Notes to the Annual Financial Statements

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

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

**Audit fees**

| | | |
|---|---|---|
| Opening balance | 2 672 | 214 572 |
| Current year subscription / fee | 4 541 674 | 3 925 859 |
| Amount paid - current year | (4 544 346) | (3 923 187) |
| Amount paid - previous years | - | (214 572) |
| | **-** | **2 672** |

Unpaid fees for prior year and current year due to the municipality receiving the invoices after the financial year was closed.

**PAYE, SDL and UIF**

| | | |
|---|---|---|
| Current year subscription / fee | 28 796 105 | 25 410 562 |
| Amount paid - current year | (28 796 105) | (25 410 562) |
| | - | - |

**Pension and Medical Aid Deductions**

| | | |
|---|---|---|
| Current year subscription / fee | 35 348 980 | 30 272 900 |
| Amount paid - current year | (35 348 980) | (30 272 900) |
| | - | - |

**VAT**

| | | |
|---|---|---|
| VAT receivable | 377 270 | 2 477 829 |

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

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

**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.

| Reason for deviation | | |
|---|---|---|
| (ii) Goods and services are produced by a sole supplier (CaseWare Licence) | 239 890 | 92 499 |

### 39. Budget differences

**Material differences between budget and actual amounts**

X1 - Municipality budgeted for receipt of SDL refund, as per prior year's budget. However the refund received was more than we had budgeted for in prior years, resulting in under budgeting for operational revenue

X2 -The municipality had anticipated to have less cash available for investments, this was not the case during the financial year. As a result, we received more than we had budgeted for

X3 - The municipality had budgeted for the recognition of Masilonyana MIG Revenue, however this revenue should not be recognised by LDM.

X4 - The municipality incurred higher employee related costs due to the recruitment of new employees, as well as the provisions for post retirement benefits and long service awards.

X5 - Variance is less than 10% , difference is judged to be insignificant and thus no reason is required.

X6 - The municipality had budgeted for the recognition of Masilonyana MIG Expenditure, however the expenditure should not be recognised by LDM as the was only acting as a conduit

X7 - The under expenditure on the capital budget led to the under expenditure of depreciation

X9 - Operating leases are budgeted for under Operational Costs

X 10 - The initiative taken by management of the municipality to make all municipality meeting to use less paper and have meeting agendas and documents to be circulated electronically. This has manifested in to a favourable cost saving on printing paper, cartridges and toners.

X 11 - Variance is less than 10% , variance is judged to be insignificant and thus no reason is required

X12 - Municipality underspent due to not being able to finalise tenders which had been budgeted for under Operational Cost.

X13 - Management had not budgeted for the impairment allowance of debtors, however the allowance for impairment greatly decreased debtor balances.

X 14 - Management did not spent 100% of it's budget, as a result the budgeted cash and cash equivalents is less than the actual cash and cash equivalents at year end.

X 15 - Variance is less than 10% , variance is judged to be insignificant and thus no reason is required.

X 16 - Variance as a result of capital budget being underspent due to the municipality realising cost savings in the procurement of intangible assets.

X 17 - Material variance due to the unanticipated increase attributable to accrued leave pay, bonus and trade payables that had to be accrued at the end of the financial year.

X 18 - Budgeted for the complete utilisation of the Masilonyana Municipal Infrastructure Grant expenditure as per the DORA allocation, however some of the projects were not completed by the end of the financial year

X 20 - The calculation that is made for the future Post Employment Medical Aid Liability and Long Service Award is calculated by actuaries and the budget estimation is brought in line therewith. However, the revised estimation is only done at year end.

X 22 - The calculation that is made for the future Post Employment Medical Aid Liability and Long Service Bonus is calculated by actuaries and the budget estimation is brought in line therewith. However, the revised estimation is only done at year end. .

X 23 - The variance is as a result of resubmissions from VAT claimed for previous years and not refunded by SARS

### 40. Segment information

**General information**

**Identification of segments**

The municipality is organised and reports to management on the basis of three major functional areas: primary, secondary and tertiary educational services. The segments were organised around the type of service delivered and the target market. Management uses these same segments for determining strategic objectives. Segments were aggregated for reporting purposes.

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

**Aggregated segments**

The municipality operates throughout the Free State Province in 5 local municipalities. Segments were aggregated on the basis of services delivered.

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

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

| Reportable segment | Goods and/or services |
| --- | --- |
| Lejweleputswa District Municipality | Please refer to the Statement of Financial Position and Statement of Financial Performance |

**40. Segment information (continued)**

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

**Information about segment surplus/deficit**

**Revenue** – Please refer to the Statement of Financial Performance for information about the reportable segment
**Expenditure** - Please refer to the Statement of Financial Performance for information about the reportable segment

**Information about segment assets and liabilities**:

**Assets** - Please refer to the Statement of Financial Position for information about the reportable segment
**Liabilities** - Please refer to the Statement of Financial Position for information about the reportable segment
**Net Assets** - Please refer to the Statement of Financial Position for information about the reportable segment

**Measurement of segment surplus or deficit, assets and liabilities**

**Basis of accounting for transactions between reportable segments**

The municipality does not have any identifiable segments and as such there are no transactions between segments.

**Information about geographical areas**

The municipality's operations are in the Free State Province.

The municipality does not report on a geographical basis; therefore, information is not available, and it is therefore impractical to report on geographical basis.