Ngaka Modiri Molema 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 (Act 117 of 1998) read with section 155 (1) of the Constitution of the Republic of South Africa (Act 108 of 1996)
Nature of business and principal activities	Water and Sanitation Service Authority, Fire Fighting and Municipal Health Services
Mayoral committee	
Executive Mayor	Hon. Molefe Khumalo
Speaker	Cllr. Shuping Nthabiseng
Single whip	Cllr. Maema Crosby
Infrastructure Development - Technical Services:	Cllr. Monnana Maria
Special Projects, Stakeholder Relations:	Cllr. Makgokgowa Agnes
Community Services & Social Development:	Cllr. Boitshoko Selekanyane
Finance (Budget &Treasury):	Cllr. Mabovu Thembinkosi
Inter-Governmental Relations & Spatial Planning:	Cllr. Mothibi Monnapula
Corporate Support, ICT & Shared Services:	Cllr. Malwane Dimakatso
LED, Agriculture, Rural Development & Shared:	Cllr. Moarabi Itumeleng
Sports, Arts, Culture & Traditional Affairs:	Cllr. Ngqobe Nombulelo
Councillors	Cllr. Mohelekete Collin
	Cllr. Maruping Gopolang
	Cllr. Sega Kealeboga
	Cllr. Msimanga Mothusi
	Cllr. Kathazo Masego
	Cllr. Malebelela Phemelo
	Cllr. Pitso Ernest
	Cllr. Dala Margaret
	Cllr. Mogapi Gomotsegang
	Cllr. Keebine Patrick
	Cllr. Tlhagale Levy
	Cllr. Molete Emmah
	Cllr. Dreyer Cornel
	Cllr. Plaatjie Mmammereki
	Cllr. Molefe Shima Markus
	Cllr. Tsagae Motseokae Petrus
	Cllr. Bamphitile JacobTumelo
	Cllr. Kekana Mbahare
	Cllr. Botha Jurie Hendrik
	Cllr. Pretorius Welhelm
	Cllr. Motlhatlhedi Kgosiemang
	Cllr. Mokhuane Brenda
	Cllr. Mosiedi Gobusamang
	Cllr. Nko Keatlaretse
	Cllr. Annandale Arista-Louise
	Cllr. Matsheka Semphete
	Cllr. Molefe Kedibogetse
	Cllr. Tladi Irene
	Cllr. Moruapheko Maria Merriam

General Information

Grading of local authority	Category C
Accounting Officer	OA Losaba
Chief Finance Officer (CFO)	GP Moroane
Registered office	Cnr Carrington Street and 1st Avenue Industrial Site Mahikeng 2745
Postal address	Private Bag X2165 Mahikeng 2745
Area of jurisdiction	Ngaka Modiri Molema District (as determined by the Demarcation Board)
Bankers	First National Bank ABSA
Auditors	Auditor General of South Africa
Enabling legislation	Constitution of the Republic of South Africa (Act 108 of 1998) Municipal Finance Management Act, (Act 56 of 2003) Municipal Systems Act, (Act 32 of 2000) Municipal Structures Act, (Act 117 of 1998) Municipal Property Rates Act, (Act 3 of 2017) Division of Revenue Act (Act 16 of 2019) Municipal Demarcation Act, (Act 27 of 1998)

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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Abbreviations used:

AFSA	Arbitration Foundation Southern Africa
COIDA	Compensation for Occupational Injuries and Diseases Act
COVID-19	Corona Virus Disease -19
CPI	Consumer Price Index
DBSA	Development Bank of Southern Africa
FY	Financial Year
GAAP	Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
LM	Local Municipality
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MPAC	Municipal Public Accounts Committee
mSCOA	Municipal Standard Chart of Accounts
NMMDM	Ngaka Modiri Molema District Municipality
SALGA	South African Local Government Association
SARS	South African Revenue Service
UIF	Unemployment Insurance Fund
VAT	Value Added Tax
WWTP	Waste Water Treatment Plant
PAYE	Pay As You Earn
SDL	Skills Development Levy
UIF	Unemployment Insurance Fund
LGSETA	Local Government Sector Education & Training Authority

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 places 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 responsible for the preparation of these annual financial statements in terms of Section 126(1) of the Municipal Finance Management Act, (Act 56 of 2003).

The accounting officer certifies that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 23 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act, (Act 20 of 1998) and the Minister of Provincial and Local Government's determination in accordance with this Act.

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 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 external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 6 to 101, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2025 and were signed by:

OA Losaba
Accounting Officer

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 municipality is engaged in water and sanitation service authority, fire fighting and municipal health services and operates in South Africa.

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

Net surplus of the municipality was R 664,767,984 (2024: surplus R 68,470,404).

2. Going concern

I draw attention to the fact that at 30 June 2025, the municipality had an accumulated surplus of R 5,150,084,805 (2024: R4,485,323,836 and that the municipality's total assets exceed its liabilities by R 5,150,084,805 (2024: R4,485,323,836).

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 municipality will continue to receive funding from government as evident from the equitable share allocation in terms of the Division of Revenue Act, (Act 4 of 2020).

3. Subsequent events

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

4. Accounting policies

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

5. Accounting Officer

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

Name
OA Losaba

6. Auditors

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

Accounting Officer's Report

7. Corporate governance

General

The municipality is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the council supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2017. The council discusses the responsibilities of management in this respect, at council meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

Audit and risk committee

In terms of Section 166 of the Municipal Finance Management Act, the Municipality must appoint members of the Audit Committee. The Municipality was satisfied that the Audit Committee of the municipality then, constituted by the non-executive directors was properly constituted to fulfil its role and advise the council of its responsibilities as provided in Section 166 of the Municipal Finance Management Act.

Appointed Members of the Audit and Risk Committee:

Mr. S Ngobeni - Chairperson
Adv. T Mokale - Member
Mr. I Motala - Member
Mr. R Mnisi - Member
Dr. S Nwabueza - Member
Ms. P Mangoma - Member

Internal audit

The municipality has internal audit department that execute the function of the internal audit as provided in Section 165 of the Municipal Finance Management Act.

Statement of Financial Position as at 30 June 2025

Figures in Rand	Notes	2025	2024 Restated*
Assets			
Current Assets			
Cash and cash equivalents	2	240,792,803	134,238,815
Receivables from exchange transactions	3	182,357,510	62,656,902
Receivables from non-exchange transactions	4	671,393	42,657,169
Inventories	5	10,808,170	5,863,593
		434,629,876	**245,416,479**
Non-Current Assets			
Investment property	6	24,649,779	25,103,603
Property, plant and equipment	7	5,679,956,643	5,371,092,352
Other financial assets	8	410,832	378,192
		5,705,017,254	**5,396,574,147**
Total Assets		**6,139,647,130**	**5,641,990,626**
Liabilities			
Current Liabilities			
Payables from exchange transactions	9	435,626,380	378,139,607
Employee benefit obligation	10	4,938,284	2,489,493
Provisions	12	44,414,433	38,342,900
		484,979,097	**418,972,000**
Non-Current Liabilities			
Employee benefit obligation	10	114,249,039	108,199,679
Payables from exchange transactions	9	390,334,189	629,495,111
		504,583,228	**737,694,790**
Total Liabilities		**989,562,325**	**1,156,666,790**
Net Assets		**5,150,084,805**	**4,485,323,836**
Accumulated surplus		5,150,084,805	4,485,323,836
Total Net Assets		**5,150,084,805**	**4,485,323,836**

* See Note 50

Statement of Financial Performance

Figures in Rand	Notes	2025	2024 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	14	170,652,576	81,011
Commission income		-	4,349
Rental of facilities and equipment	15	434,764	412,279
Licences and permits	16	655,439	127,077
Other income	18	1,175,041	549,586
Interest received - investment	19	27,126,928	23,658,407
Total revenue from exchange transactions		**200,044,748**	**24,832,709**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	21	1,420,721,966	1,337,995,533
Total revenue	13	**1,620,766,714**	**1,362,828,242**
Expenditure			
Employee related costs	22	(468,514,599)	(430,250,340)
Remuneration of councillors	23	(15,570,868)	(15,073,122)
Depreciation and amortisation	24	(190,345,857)	(201,600,937)
Finance costs	26	(14,072,782)	(12,198,223)
Lease rentals on operating lease	17	(2,171,253)	(2,146,271)
Inventory consumed	28	(199,054,474)	(15,707,405)
Contracted services	31	(162,239,028)	(368,789,297)
Transfers and subsidies	20	-	(21,400,002)
General expenses	29	(111,448,905)	(128,414,204)
Total expenditure		**(1,163,417,766)**	**(1,195,579,801)**
Operating surplus	33	**457,348,948**	**167,248,441**
Loss on disposal of assets		(853,079)	(51,369,482)
Remeasurements of the net defined benefit liability	10	11,705,741	6,203,112
Reversal of impairments (Impairment loss)	25	16,005,547	(41,598,667)
Debt relief	30	180,872,485	-
Inventories write downs and reversals of write downs		(311,658)	(12,013,000)
		207,419,036	**(98,778,037)**
Surplus for the year		**664,767,984**	**68,470,404**

* See Note 50

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus / deficit	Total net assets
Balance at 01 July 2023	**4,416,853,432**	**4,416,853,432**
Changes in net assets		
Surplus for the year	68,470,404	68,470,404
Total changes	68,470,404	68,470,404
Restated* Balance at 01 July 2024	**4,485,316,821**	**4,485,316,821**
Changes in net assets		
Surplus for the year	664,767,984	664,767,984
Total changes	664,767,984	664,767,984
Balance at 30 June 2025	**5,150,084,805**	**5,150,084,805**

* See Note 50

Cash Flow Statement

Figures in Rand	Note(s)	2025	2024 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		25,215,526	-
Grants		1,420,721,966	1,307,631,321
Interest income		27,126,928	23,658,407
Other receipts		1,175,041	549,586
		1,474,239,461	1,331,839,314
Payments			
Employee costs		(472,313,593)	(435,893,872)
Suppliers		(411,631,058)	(662,569,044)
Finance costs		(97,311)	(236,949)
		(884,041,962)	(1,098,699,865)
Net cash flows from operating activities	32	**590,197,499**	**233,139,449**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(483,610,871)	(253,776,513)
Purchase of investment property	6	-	(4,399,025)
Movement in other financial assets		(32,640)	(31,714)
Net cash flows from investing activities		**(483,643,511)**	**(258,207,252)**
Cash flows from financing activities			
Net increase/(decrease) in cash and cash equivalents		**106,553,988**	**(25,067,803)**
Cash and cash equivalents at the beginning of the year		134,238,815	159,306,618
Cash and cash equivalents at the end of the year	2	**240,792,803**	**134,238,815**

* See Note 50

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						
Service charges	150,000	(66,384)	**83,616**	170,652,576	**170,568,960**	48.1
Rendering of services	532,307	(195,968)	**336,339**	-	**(336,339)**	48.2
Rental of facilities and equipment	2,000	-	**2,000**	434,764	**432,764**	48.3
Licences and permits	120,000	284,604	**404,604**	655,439	**250,835**	48.4
Other income	-	-	**-**	1,175,041	**1,175,041**	48.5
Interest received - investment	8,034,000	14,996,000	**23,030,000**	27,126,928	**4,096,928**	48.6
Total revenue from exchange transactions	**8,838,307**	**15,018,252**	**23,856,559**	**200,044,748**	**176,188,189**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	1,464,855,000	(3,225,758)	**1,461,629,242**	1,420,721,966	**(40,907,276)**	
Total revenue	**1,473,693,307**	**11,792,494**	**1,485,485,801**	**1,620,766,714**	**135,280,913**	
Expenditure						
Employee related costs	(411,134,852)	(33,326,502)	**(444,461,354)**	(468,514,599)	**(24,053,245)**	
Remuneration of councillors	(15,378,079)	-	**(15,378,079)**	(15,570,868)	**(192,789)**	
Depreciation and amortisation	(200,756,403)	100,062,302	**(100,694,101)**	(190,345,857)	**(89,651,756)**	48.7
Impairment loss/ Reversal of impairments	-	-	**-**	16,005,547	**16,005,547**	48.20
Inventory consumed	(50,350,000)	(3,000,000)	**(53,350,000)**	(199,054,474)	**(145,704,474)**	
Contracted Services	(238,800,330)	(79,811,194)	**(318,611,524)**	(162,239,028)	**156,372,496**	48.8
Transfers and Subsidies	(50,000,000)	50,000,000	**-**	-	**-**	48.9
General Expenses	(118,976,520)	12,757,704	**(106,218,816)**	(127,692,940)	**(21,474,124)**	
Total expenditure	**(1,085,396,184)**	**46,682,310**	**(1,038,713,874)**	**(1,147,412,219)**	**(108,698,345)**	
Operating surplus	**388,297,123**	**58,474,804**	**446,771,927**	**473,354,495**	**26,582,568**	
Loss on disposal of assets and liabilities	-	-	**-**	(853,079)	**(853,079)**	48.21
Remeasurements of the net defined benefit liability	-	-	**-**	11,705,741	**11,705,741**	48.10
Debt relief	-	-	**-**	180,872,485	**180,872,485**	48.11
Inventories losses/write-downs	-	-	**-**	(311,658)	**(311,658)**	48.12
	-	**-**	**-**	**191,413,489**	**191,413,489**	
Surplus before taxation	**388,297,123**	**58,474,804**	**446,771,927**	**664,767,984**	**217,996,057**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**388,297,123**	**58,474,804**	**446,771,927**	**664,767,984**	**217,996,057**	

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						
Inventories	192,872,628	(4,000,000)	**188,872,628**	10,808,170	**(178,064,458)**	48.13
Receivables from exchange transactions	268,531,630	(45,905,153)	**222,626,477**	182,357,510	**(40,268,967)**	48.14
Receivables from non-exchange transactions	557,488	-	**557,488**	671,393	**113,905**	48.15
Cash and cash equivalents	(284,297,129)	447,200,682	**162,903,553**	240,792,803	**77,889,250**	48.16
	177,664,617	**397,295,529**	**574,960,146**	**434,629,876**	**(140,330,270)**	
Non-Current Assets						
Investment property	20,704,578	-	**20,704,578**	24,649,779	**3,945,201**	
Property, plant and equipment	5,482,380,263	132,229,606	**5,614,609,869**	5,679,956,643	**65,346,774**	
Other financial assets	346,478	-	**346,478**	410,832	**64,354**	
	5,503,431,319	**132,229,606**	**5,635,660,925**	**5,705,017,254**	**69,356,329**	
Total Assets	**5,681,095,936**	**529,525,135**	**6,210,621,071**	**6,139,647,130**	**(70,973,941)**	
Liabilities						
Current Liabilities						
Payables from exchange transactions	254,627,173	(4,771,662)	**249,855,511**	435,626,382	**185,770,871**	
Payables from non-exchange transactions	80,256,847	-	**80,256,847**	-	**(80,256,847)**	48.17
Employee benefit obligation	-	-	**-**	4,938,284	**4,938,284**	48.18
Provisions	41,539,719	-	**41,539,719**	44,414,433	**2,874,714**	
	376,423,739	**(4,771,662)**	**371,652,077**	**484,979,099**	**113,327,022**	
Non-Current Liabilities						
Employee benefit obligation	97,385,344	-	**97,385,344**	114,249,039	**16,863,695**	48.18
Payables from exchange transactions	-	-	**-**	390,334,189	**390,334,189**	48.19
	97,385,344	**-**	**97,385,344**	**504,583,228**	**407,197,884**	
Total Liabilities	**473,809,083**	**(4,771,662)**	**469,037,421**	**989,562,327**	**520,524,906**	
Net Assets	**5,207,286,853**	**534,296,797**	**5,741,583,650**	**5,150,084,803**	**(591,498,847)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	5,207,286,853	534,296,797	**5,741,583,650**	5,150,084,805	**(591,498,845)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual
Cash Flow Statement					
Cash flows from operating activities					
Receipts					
Sale of goods and services	-	-	**-**	25,215,526	**25,215,526**
Grants	1,464,855,000	(3,225,758)	**1,461,629,242**	1,420,721,966	**(40,907,276)**
Interest income	-	-	**-**	27,126,928	**27,126,928**
Other receipts	924,953	25,590	**950,543**	1,175,041	**224,498**
	1,465,779,953	**(3,200,168)**	**1,462,579,785**	**1,474,239,461**	**11,659,676**
Payments					
Suppliers and employee costs	(841,004,082)	(108,888,244)	**(949,892,326)**	(883,944,651)	**65,947,675**
Finance costs	-	-	**-**	(97,311)	**(97,311)**
Transfers and subsidies	(50,000,000)	50,000,000	**-**	-	**-**
	(891,004,082)	**(58,888,244)**	**(949,892,326)**	**(884,041,962)**	**65,850,364**
Net cash flows from operating activities	**574,775,871**	**(62,088,412)**	**512,687,459**	**590,197,499**	**77,510,040**
Cash flows from investing activities					
Purchase of property, plant and equipment	(927,107,000)	420,061,101	**(507,045,899)**	(483,610,871)	**23,435,028**
Movement in financial assets	-	-	**-**	(32,640)	**(32,640)**
Net cash flows from investing activities	**(927,107,000)**	**420,061,101**	**(507,045,899)**	**(483,643,511)**	**23,402,388**
Net increase/(decrease) in cash and cash equivalents	(352,331,129)	357,972,689	**5,641,560**	106,553,988	**100,912,428**
Cash and cash equivalents at the beginning of the year	60,000,000	74,231,993	**134,231,993**	134,238,815	**6,822**
Cash and cash equivalents at the end of the year	**(292,331,129)**	**432,204,682**	**139,873,553**	**240,792,803**	**100,919,250**

Accounting Policies

Figures in Rand	Note(s)	2025	2024

1. Significant account policies

The principal accounting policies applied in the preparation of these annual financial statements are set out below.

1.1 Basis of preparations

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.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

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

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

These accounting policies are consistent with the previous period.

1.2 Presentation currency

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

1.3 Going concern assumption

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

Management considers key financial metrics and approved medium-term budgets, MFMA Section 71 reports together with the municipality's dependency on grants from national and provincial government, to conclude that the going concern assumption used in the compiling of its annual financial statements, is appropriate.

1.4 Materiality

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

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

Budget information

Variances between budget and actual amounts are regarded as material when there is a variance of:

- 20% or greater in the statement of financial position, the statement of financial performance and the cash flow statement.

Accounting Policies

1.5 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:

Allowance for slow moving, damaged and obsolete stock

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

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. The recoverable service amount of non-cash-generating assets have been determined on the higher of value-in-use calculations and fair value less cost 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.

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 goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including production estimates, supply demand, together with economic factors such as exchange rates, inflation rates and interest rates.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 12 - Provisions.

Useful lives of waste and water network and other assets

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

Post-retirement benefits

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

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

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

Allowance for doubtful debts

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

Accounting Policies

1.5 Significant judgements and sources of estimation uncertainty (continued)

Employee benefit obligations

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

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

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

1.6 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

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

Recognition

Investment property is recognised at cost and shall be carried according to the cost model. Transaction costs are included in the initial measurement.

Cost is the amount of cash or cash equivalents or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction. Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Item	Useful life
Property - land	indefinite
Property - buildings	25 - 50 years

Derecognition

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

The gain or loss arising from the derecognition of an item of investment property is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of investment property is determined as the difference between the net disposa proceeds and the carrying amount of the asset.

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (refer to note 7).

1.7 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

Depreciation and impairment

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

Any increase in an asset’s carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset’s carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

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

1.7 Property, plant and equipment (continued)

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

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

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

Item	Depreciation method	Average useful life
Buildings	Straight-line	25 - 50 years
Plant and machinery	Straight-line	4 - 15 years
Furniture and fixtures	Straight-line	4 - 15 years
Motor vehicles	Straight-line	5 - 15 years
IT equipment	Straight-line	2 - 5 years
Infrastructure - Mechanical equipment	Straight-line	10 - 20 years
Civil structures	Straight-line	15 - 50 years
Electricity - Distribution cables	Straight-line	40 - 50 years
Electricity - Equipment	Straight-line	15 - 45 years
Electricity - Public lighting	Straight-line	30 - 40 years
External facilities	Straight-line	7 -30 years
Sewerage - Pipe line	Straight-line	40 - 50 years
Sewerage - Pump station	Straight-line	10 - 55 years
Sports and playground	Straight-line	10 - 40 years
Stormwater - Drainage construction	Straight-line	50 - 70 years
Stormwater - Drainage unlined	Straight-line	10 - 15 years
Water - Dams and reservoirs	Straight-line	50 - 80 years
Water - Other	Straight-line	15 - 20 years
Water - Pipes and grid	Straight-line	50 - 90 years
Water - Pumps and tanks	Straight-line	15 - 20 years
Intangible assets - Computer software	Straight-line	3 - 5 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

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

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

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

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 7).

1.8 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

1.9 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.

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.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Subsequent measurement

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

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

1.9 Intangible assets (continued)

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

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

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

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

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

Item	Depreciation method	Average useful life
Computer software	Straight-line	1 - 5 years

Derecognition

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

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

1.10 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.

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

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

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

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

1.10 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.10 Financial instruments (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

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

Class	Category
Other financial asset	Financial asset measured at fair value
Cash and cash equivalents	Financial asset measured at fair value
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transaction	Financial asset measured at amortised cost

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

Class	Category
Trade and other payables from exchange transactions	Financial liability measured at amortised cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Accounting Policies

1.10 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus, in the case of a financial instrument not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

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

- Financial instruments at 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.

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 entity 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 entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-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, a 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.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity 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 entity 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 entity 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.

Accounting Policies

1.10 Financial instruments (continued)

Impairment and uncollectibility of financial assets

The entity 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.

The entity assesses financial assets individually, when assets are individually significant, and individually or collectively for financial assets that are not individually significant. Where no objective evidence of impairment exists for an individually assessed asset (whether individually significant or not), an entity includes the assets in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in the collective assessment of impairment.

For collective assessments of impairment, assets with similar credit risk characteristics are grouped together. The credit risk characteristics are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

In making this assessment management may consider the following indicators as guidance for possible impairment:

- Significant financial difficulty experienced by the borrower/debtor;
- Delays in payments (including interest payments) or failure to pay/defaults;
- For economic or legal reasons, allowing disadvantaged customers who are experiencing financial difficulties to pay as and when they can. The entity would not otherwise have considered this concession. For example, allowing disadvantaged customers to pay their account when they can due to the fact that the water it supplies to the customer is a basic human right;
- It is probable that the borrower/debtor will enter sequestration (bankruptcy) or other financial reorganisation;
- The disappearance of an active market for the financial asset because of financial difficulties
- Observable data, for example historical data, indicating that there is a decrease in the estimated future cash flows that will received (which can be measured reliably), from a group of financial assets (financial assets with similar credit risk characteristics grouped together) since the initial recognition of those assets. The decrease may not yet be identified for the individual financial assets in the group. These can include:
    - the payment status of borrowers/debtors in the group has deteriorated (e.g. an increased number of delayed payments); or
    - national or local economic conditions that are in line with non-payments in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers/debtors, or adverse changes in market conditions that affect the borrowers/debtors in the group)
- Accounts in arrears for a period longer that the initial estimated repayment period;
- Accounts with arrears of over 90 days showing no repayments in the last financial year;
- Accounts handed over for collection;
- Any negative changes in the ability of debtors and borrowers to repay the amounts due to the entity (e.g. an increased number of late payments);
- A breach in contract, such as a default in interest or capital payments.

Management need not utilize all the indicators given above as guidance but only use the indicators to which management has sufficient information to make the assessment for possible or actual impairment.

Refer to notes 3 and 4 for the impact of the above application.

Financial assets measured at amortised cost:

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

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

Accounting Policies

1.10 Financial instruments (continued)

Financial assets measured at cost:

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

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

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

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

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

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

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

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

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

Accounting Policies

1.10 Financial instruments (continued)

Financial liabilities

The entity derecognises 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 ashaving extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

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

Presentation

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

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

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

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.

1.11 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.

Statutory receivables of the municipality include items such as:
- Value Added Tax.

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.

1.11 Statutory receivables (continued)

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

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

Accrued interest

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

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

Other charges

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

Impairment losses

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

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:
- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

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

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

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

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

Accounting Policies

1.11 Statutory receivables (continued)

Derecognition

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

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

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

1.12 Leases

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

Accounting Policies

1.13 Inventories

Inventories are assets in the form of materials or supplies to be consumed or distributed in the rendering of services or held for distribution in the ordinary course of operations.

Initial measurement

Inventories are recognised as an asset if it is probable that future economic benefits or service potential associated with the item will flow to the municipality and the cost of the inventories can be measured reliably.

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

Subsequent measurement

Subsequently inventories are measured at the lower of cost and net realisable value unless distributed through a non-exchange transaction or consumed in the production process of goods to be distributed at no charge or for a nominal charge, in which case they are measured at the lower of cost and current replacement cost.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

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

Derecognition

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

The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Redundant and slow-moving inventories are identified and written down/written off. Inventories identified for write down/writeofff, but for which a council resolution to authorise the write down/write off, has not yet been obtained, are provided for as a provision for obsolete stock. Differences arising on the valuation of inventory are recognised in the statement of financial performance in the year in which they arise.

Accounting Policies

1.14 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).

The municipality classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. All other assets are classified as non-cash-generating assets.

Designation

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

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

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

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.

Accounting Policies

1.14 Impairment of cash-generating assets (continued)

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

1.14 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 use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

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

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

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

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

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

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

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

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

Accounting Policies

1.14 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

Redesignation

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

Accounting Policies

1.15 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).

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

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

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

Assets acquired by the municipality are mainly used as per the municipality's mandate for service delivery purposes to customers that pay for the services but also to indigents. As the assets that are used for service delivery are similar, assets that generate cash flows cannot be distinguished from the non-cash generating assets and therefor are distinguished as non-cash generating.

In the event that the assets that generate cash flows can be clearly identified the assets will be designated as cash generating.

Designation

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

The municipality designates an asset or a cash-generating unit as cash-generating when:
- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.
- the municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

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

Impairment is a loss in the 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).

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.

Accounting Policies

1.15 Impairment of non-cash-generating assets (continued)

Value in use

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

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

Depreciated replacement cost approach

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

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

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Accounting Policies

1.15 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

1.16 Employee benefits

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

Termination benefits are employee benefits payable as a result of either:
- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

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

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

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

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

1.16 Employee benefits (continued)

Short-term employee benefits

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

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

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

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

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

Post-employment benefits

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

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

Accounting Policies

1.16 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.16 Employee benefits (continued)

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

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

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

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

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

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

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

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

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

1.16 Employee benefits (continued)

Other long term employee obligations

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

The municipality has an obligation to provide long term service allowance benefits to all of its employees. 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 other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

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

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

The entity uses the Projected Unit Credit Method to determine the present value of its long service employee benefit and the related current service cost and, where applicable, past service cost. The Projected Unit Credit 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.

Termination benefits

The municipality recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

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

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

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

Accounting Policies

1.17 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.

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

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

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

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

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

Provisions are not recognised for future operating surplus.

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

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

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

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

1.17 Provisions and contingencies (continued)

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

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

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

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

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

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

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

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.14 and 1.15.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

Accounting Policies

1.18 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

1.19 Revenue from exchange transactions

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

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

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

Measurement

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

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

Sale of goods

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

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

Accounting Policies

1.19 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

Interest

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

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

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

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

1.20 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

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

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

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

Fines

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

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

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

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

1.20 Revenue from non-exchange transactions (continued)

Services in-kind

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.

1.21 Investment income

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

1.22 Borrowing costs

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

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

1.23 Accounting by principals and agents

Identification

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

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

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

Identifying whether an entity is a principal or an agent

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

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

Binding arrangement

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

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

Accounting Policies

1.23 Accounting by principals and agents (continued)

Assessing which entity benefits from the transactions with third parties

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

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:
- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

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

Recognition

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

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

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

1.24 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

Budgeted amounts have been included in the annual financial statements for the current financial year only.

1.25 Unauthorised expenditure

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

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

Detailed disclosures are made in note 40 to the annual financial statements as required by the Municipal Finance Management Act, (Act No. 56 of 2003).

1.26 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.

Detailed disclosures are made in note to the annual financial statements as required by the Municipal Finance Management Act, (Act No. 56 of 2003).

1.27 Irregular expenditure

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

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

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

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

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

Detailed disclosures are made in note 42 to the annual financial statements as required by the Municipal Finance Management Act, (Act No. 56 of 2003).

Accounting Policies

1.28 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.

1.29 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surplus realised during a specific financial year is credited against the accumulated surplus.

Prior year adjustments, relating to income and expenditure are credited and/or debited against accumulated surplus/(deficit) when retrospective adjustments are made.

1.30 Budget information

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

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

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

The approved budget covers the fiscal period from 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.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury. Explanatory comments to material differences are provided in note 48 to the annual financial statements.

Accounting Policies

1.31 Related parties

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

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

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

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

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

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person 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. Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

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.

1.32 Events after reporting date

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

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

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

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

Accounting Policies

1.33 Service concession arrangements: Entity as grantor

Identification

Service concession arrangement is a contractual arrangement between a grantor and an operator in which an operator uses the services concession asset to provide a mandated function on behalf of a grantor for a specified period, where the operator is compensated for its services over the period of service concession arrangement.

A grantor is the entity that grants the right to use the service concession asset to the operator.

A mandated function involves the delivery of a public service by an operator on behalf of a grantor that falls within the grantor's mandate.

An operator is the entity that uses the service concession asset to provide a mandated function subject to the grantor's control of the asset.

A service concession asset is an asset used to provide a mandated function in a service concession arrangement that:
- is provided by the operator which:
  - the operator constructs, develops, or acquires from a third party; or
  - is an existing asset of the operator; or
- is provided by the grantor which:
  - is an existing asset of the grantor; or
  - is an upgrade to an existing asset of the grantor.

Recognition of asset and liability

The entity recognises an asset provided by the operator and an upgrade to an existing asset of the entity, as a service concession asset if the entity controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price, and if the entity controls (through ownership, beneficial entitlement or otherwise) any significant residual interest in the asset at the end of the term of the arrangement. This applies to an asset used in a service concession arrangement for its entire economic life (a "whole-of-life" asset).

After initial recognition or reclassification, service concession assets are clearly identified from other assets within the same asset category, and are clearly identified from owned and/or leased assets.

Where the entity recognises a service concession asset, and the asset is not an existing asset of the entity (grantor), the entity (grantor) also recognises a liability.

The entity does not recognise a liability when an existing asset of the entity is reclassified as a service concession asset, except in circumstances where additional consideration is provided by the operator.

Measurement of asset and liability

The entity initially measures the service concession asset as follows:
- Where the asset is not an existing asset of the entity, the asset is measured at its fair value.
- Where the asset is an existing asset of the entity and it meets the recognition criteria of a service concession asset, the asset is reclassified as a service concession asset, and the asset is accounted for in accordance with the policy on Investment property, Property, plant and equipment, Intangible assets, or Heritage assets, as appropriate.

The entity initially measures the liability at the same amount as the service concession asset, adjusted by the amount of any other consideration from the entity to the operator, or from the operator to the entity.

Grant of a right to the operator model

Where the entity does not have an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset, and grants the operator the right to earn revenue from third-party users or another revenue-generating asset, the entity accounts for the liability as the unearned portion of the revenue arising from the exchange of assets between the entity and the operator.

The entity recognises revenue and reduces the liability according to the substance of the service concession arrangement.

Accounting Policies

1.33 Service concession arrangements: Entity as grantor (continued)

Dividing the arrangement

If the entity pays for the construction, development, acquisition, or upgrade of a service concession asset partly by incurring a financial liability and partly by the grant of a right to the operator, it accounts separately for each part of the total liability.

Other liabilities, contingent liabilities and contingent assets

The entity accounts for other liabilities, contingent liabilities, and contingent assets arising from a service concession arrangement in accordance with the policy on Provisions, Contingent liabilities and contingent assets and Financial instruments.

1.34 Disclosure in terms of Section 45 of the Municipal Supply Chain Management Regulations

The notes to the annual financial statements of a municipality must disclose particulars of any award of more than R2,000 to a person who is a spouse, child, or parent of such a person in the service of the state, or has been in the service of the state in the previous twelve months.

Figures in Rand	2025	2024

2. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	240,792,803	134,238,815

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
FNB Cheque Acc 52910086795	29,379,520	33,912,731	6,793,013	29,379,990	33,912,633	6,756,787
FNB Call Account 62859822374	1,926,809	567,981	4,677,397	1,926,809	567,981	4,677,397
FNB Call Account 62835653016	19,320,083	7,638	25,568,999	19,320,083	7,638	25,568,999
ABSA Call deposit 160432220101	392,206	369,125	345,895	392,206	369,125	345,895
ABSA Call Account 9384966749	69,728	64,139	-	69,287	63,673	-
ABSA Call account 9385731014	3,950,143	3,633,530	-	3,925,140	3,607,143	-
ABSA Call Account 9386988537	711,279	196,277	-	558,115	194,851	-
ABSA Call Account 9390393792	342,423	-	-	340,255	-	-
ABSA Call Account 9387173042	13,064,439	88,343,760	-	12,981,217	87,638,577	-
FNB Call Account 62445709746	709,704	116,058	2,009,828	709,704	116,058	2,009,828
FNB Call Account 62858604369	3,343,108	200,036	1,422,729	3,343,108	200,036	1,422,729
FNB Call Account 62860297706	8,480,104	462,668	1,855,865	8,480,104	462,668	1,855,729
FNB Call Account 62914421087	1,986,536	70,445	23,960,020	1,986,536	70,445	23,960,020
FNB Call Account 63011395125	67,949,738	3,479,058	91,143,071	67,949,738	3,479,058	91,143,071
FNB Call Account 63012146105	1,438,629	772,062	1,566,125	1,438,629	772,062	1,566,125
Nedbank Call Account 03/7881001518/000041	2,991,882	2,770,044	-	2,991,882	2,770,044	-
Standard Bank Call account 038471841-007	45,945,104	-	-	45,000,000	-	-
Standard Bank Call account 038471841-008	40,413,370	-	-	40,000,000	-	-
Total	**242,414,805**	**134,965,552**	**159,342,942**	**240,792,803**	**134,231,992**	**159,306,580**

3. Receivables from exchange transactions

	2025	2024
Trade debtors	145,545,440	-
Staff debtors	129,865	407,565
Deposits	2,089,583	2,091,209
Trade creditors with debit balances	17,344	40,713
VAT accrual receivable	22,547,224	52,783,711
Statutory receivables (VAT)	6,458,382	-
Less: Provision for impairment	(2,085,514)	(2,085,514)
Prepaid expenses	5,939,911	8,685,757
Other receivables	1,715,275	733,461
Net trade receivables from exchange transactions	**182,357,510**	**62,656,902**

Trade and other receivables pledged as security

None of the trade and other receivables were pledged as security.

The carrying value of the trade receivables approximates its fair value.

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

3. Receivables from exchange transactions (continued)

Trade debtors ageing

Current	31,043,347	-
30+ days	25,320,387	-
60+ days	(7,224,137)	-
90+ days	(9,287,753)	-
120+ days	11,880,055	-
150+ days	10,459,666	-
180+ days	83,353,875	-
	145,545,440	**-**

Trade and other receivables past due but not impaired

Reconciliation of provision for impairment of trade and other receivables

Opening balance	(2,085,514)	(2,085,514)

4. Receivables from non-exchange transactions

Government grants and subsidies	1,202,682	43,188,458
Staff debtors	926,906	926,906
Less: Provision for impairment	(1,458,195)	(1,458,195)
Net total receivable from non-exchange transactions	**671,393**	**42,657,169**

Receivables from non-exchange transactions pledged as security

No trade and other receivables from non-exchange transactions were pledged as security or collateral.

Receivables from non-exchange transactions past due but not impaired

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

1 month past due	1,487,570	1,487,570
2 months past due	(1,458,195)	(1,458,195)

Receivables from non-exchange transactions impaired

The ageing of these receivables is as follows:

Over 6 months	1,479,743	1,479,743

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(1,479,743)	(1,479,743)

5. Inventories

Raw materials and components	10,759,969	5,815,392
Water for distribution	48,201	48,201
	10,808,170	**5,863,593**

Inventory pledged as security

No inventory has been pledged as security.

6. Investment property

	2025			2024		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	34,417,206	(9,767,427)	24,649,779	34,417,206	(9,313,603)	25,103,603

Reconciliation of investment property - 2025

	Opening balance	Depreciation	Total
Investment property	25,103,603	(453,824)	24,649,779

Reconciliation of investment property - 2024

	Opening balance	Disposals	Transfers received	Impairments	Depreciation	Total
Investment property	22,153,605	(653)	3,372,956	(29,083)	(393,222)	25,103,603

Pledged as security

No investment was pledged as security by the municipality.

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

Notes to the Annual Financial Statements

Figures in Rand

7. 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	20,588,362	-	20,588,362	20,588,362	-	20,588,362
Buildings	245,356,836	(90,976,491)	154,380,345	226,554,494	(84,778,629)	141,775,865
Other property,plant and equipment	110,791,679	(33,577,717)	77,213,962	96,452,798	(30,845,796)	65,607,002
Infrastructure	2,196,544,107	(1,147,933,690)	1,048,610,417	2,147,352,444	(1,106,689,833)	1,040,662,611
Service concession assets [Infrastructure]	8,584,190,141	(4,205,026,584)	4,379,163,557	8,236,803,509	(4,134,344,997)	4,102,458,512
Total	**11,157,471,125**	**(5,477,514,482)**	**5,679,956,643**	**10,727,751,607**	**(5,356,659,255)**	**5,371,092,352**

Notes to the Annual Financial Statements

Figures in Rand

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2025

	Opening balance	Additions	Disposals	Work in progress	Transfers to completed assets	Transfers from Work in progress	Depreciation	Impairment loss	Impairment reversal	Total
Land	20,588,362	-	-	-	-	-	-	-	-	20,588,362
Buildings	141,775,865	-	-	18,802,342	-	-	(6,197,862)	-	-	154,380,345
Other property,plant and equipment	65,607,002	15,444,169	(206,957)	-	-	-	(3,652,380)	(12,609)	34,737	77,213,962
Infrastructure	1,040,662,611	-	(5,582)	50,840,374	74,383,823	(74,383,823)	(43,136,298)	-	249,312	1,048,610,417
Service concession assets [Infrastructure]	4,102,458,512	-	(640,540)	398,516,972	-	-	(136,905,493)	-	15,734,106	4,379,163,557
	5,371,092,352	**15,444,169**	**(853,079)**	**468,159,688**	**74,383,823**	**(74,383,823)**	**(189,892,033)**	**(12,609)**	**16,018,155**	**5,679,956,643**

Reconciliation of property, plant and equipment - 2024

	Opening balance	Additions	Disposals/ Write-offs	Work in progress	Transfers	Depreciation	Impairment loss	Impairment reversal	Total
Land	20,588,362	-	-	-	-	-	-	-	20,588,362
Buildings	113,252,316	-	(103,334)	37,571,318	(3,372,956)	(5,545,845)	(25,634)	-	141,775,865
Other property,plant and equipment	71,108,819	397,616	(1,486,994)	-	-	(3,893,301)	(519,138)	-	65,607,002
Infrastructure	1,045,811,059	-	(4,575,719)	43,059,019	-	(45,297,142)	-	1,665,394	1,040,662,611
Service concession assets [Infrastructure]	3,870,719,343	-	(47,556,788)	457,274,306	-	(144,794,799)	(33,183,550)	-	4,102,458,512
	5,121,479,899	**397,616**	**(53,722,835)**	**537,904,643**	**(3,372,956)**	**(199,531,087)**	**(33,728,322)**	**1,665,394**	**5,371,092,352**

Pledged as security

No property, plant and equipment were pledged as security.

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

7. Property, plant and equipment (continued)

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

The following projects are currently experiencing delays or were halted. For each project, the reason for the delay or halting of the project were noted. The carrying amount of those assets included in the balance of the Property, Plant and Equipment are listed below.

Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected		
Mogosane Water Supply	14,276,874	14,276,874
Springfontein Water Supply	506,960	506,960
Mafikeng South Bulk Water Supply	15,359,021	15,359,021
Seweding, Magogoe, Phatsima Water Supply	3,223,686	3,223,686
Magogoe Ward 19 Water Supply	8,988,246	8,988,246
Sedibeng Ratlou Drought Relief	14,960,204	14,960,204
Sedibeng Tswaing Drought Relief	15,161,665	15,161,665
Sedibeng Ditsobotla Drought Relief	1,925,371	1,925,371
Sedibeng Mafikeng Drought Relief	719,427	719,427
Gamotlatla Water Supply phase 2	1,095,364	1,095,364
Mafikeng South Regional Water Supply	1,620,850	1,620,850
	77,837,668	**77,837,668**

The above-mentioned projects have all had no movement since the 2020/2021 Financial Year. Major Water Supply projects have been taken over by Magalies Water, as well as the Department of Water and Sanitation.

Reconciliation of Work-in-Progress - 2025

	Included within Infrastructure	Included within Buildings	Total
Opening balance	997,680,798	16,807,624	1,014,488,422
Additions/capital expenditure	449,357,346	18,802,342	468,159,688
Transferred to completed items	(74,383,823)	-	(74,383,823)
	1,372,654,321	**35,609,966**	**1,408,264,287**

Reconciliation of Work-in-Progress - 2024

	Included within Infrastructure	Included within Buildings	Total
Opening balance	524,709,502	8,795,774	533,505,276
Additions/capital expenditure	500,333,324	37,571,318	537,904,642
Transferred to completed items	(27,362,028)	(29,559,468)	(56,921,496)
	997,680,798	**16,807,624**	**1,014,488,422**

Change in estimate

A change in the estimated useful life of various assets of the municipality has resulted in the following decreases (increases) in depreciation for the mentioned asset categories for the financial year:

Other property, plant and equipment	310,414	1,451,845
Infrastructure assets	236,164	10,275,873
Land, buildings and community assets	17,755	125,202
Total change in estimate for useful life of property, plant and equipment	**564,333**	**11,852,920**

The change in estimate effect amount relating to future periods is not disclosed, as it is impracticable to do so. (GRAP 3.42)

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. Property, plant and equipment (continued)

Service concession arrangements

Service concession arrangement and asset

The overall objective and purpose of the service concession arrangement

Ngaka Modiri Molema District Municipality (the Grantor) entered into a Service Level Agreement (SLA) with:

- Mahikeng Local Municipality (the Operator) effective 1 July 2023,
- Ramotshere-Moiloa Local Municipality (the Operator) effective 1 March 2023,
- Tswaing Local Municipality (the Operator) effective 1 March 2023

These agreements are for the operation, maintenance, and management of water and sanitation services. The arrangement aims to ensure continued and effective provision of basic services to communities within the Mahikeng Local Municipality, Ramotshere-Moiloa Local Municipality and Tswaing Local Municipality. These arrangements align with the constitutional obligations of the Grantor to support local municipalities in service delivery, particularly in areas lacking technical and financial capacity.

Significant terms of the service concession arrangement that may affect the amount, timing, and certainty of future cash flows

Effective Period: The SLAs are effective from 1 July 2023 and 01 March 2023 for a period of three years and are renewable upon mutual agreement.

Financial Terms: The Operator is not remunerated through user charges but is funded by the Grantor through equitable share allocations and approved operating budgets.

Cost Recovery: Operational expenses are subject to submission of detailed budgets, and funds are disbursed based on actual costs incurred and supporting documentation.

Review Mechanism: Performance is reviewed through quarterly and annual reports.

Termination: Six months' written notice is required by either party to terminate the agreement. Immediate termination may be effected in case of breach, insolvency, or non-performance.

No re-pricing or escalations are permitted outside of agreed budget adjustments approved through formal municipal processes.

The nature and extent of the service concession arrangement are as follows:

Rights to use specified assets: Asset Usage: Mahikeng Local Municipality, Ramotshere Moiloa Local Municipality Local and Tswaing Municipality are granted usage rights to specified water and sanitation infrastructure, which remains the property of the Grantor. These assets are not transferred and are used exclusively for the delivery of the agreed services.

Service Delivery: The Operator is responsible for the delivery of end-to-end services including water treatment, distribution, infrastructure maintenance, fault reporting, customer interface, and billing.

Monitoring: The Grantor retains oversight responsibilities and may conduct inspections and audits at any time.

Renewal and Termination: The agreement includes options for renewal subject to satisfactory performance and mutual agreement. Termination rights are explicitly outlined for both parties.

Other Obligations: The Operator must maintain the infrastructure in a functional state and report any significant risks or breakdowns to the Grantor immediately.

The carrying amount of the assets used remains under the fixed assets register of the Grantor.

Changes in the service concession arrangement that occurred during the reporting period

There were no amendments to the terms of the SLA or changes in service scope or responsibilities during the reporting period.

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

7. Property, plant and equipment (continued)

Contract breach by either party during the reporting period and the impact thereof for the entity as grantor

There were no contract breaches reported by either the Grantor or the Operator for the current reporting period. All obligations and service levels were met in accordance with the SLA provisions.

8. Other financial assets

Residual interest at cost		
Momentum Flexible investment	410,832	378,192

Non-current assets		
Residual interest at cost	410,832	378,192

The municipality has a flexible investment account with Momentum. The investment yields interest of 7.45% per annum.

9. Payables from exchange transactions

Trade payables	302,404,831	285,065,532
Transfers and subsidy payable	43,620,151	43,620,151
Retention fees	52,812,938	38,534,108
Employee related accruals	1,730,307	613,827
Control and clearing accounts	(2,959,871)	(1,061,123)
VAT accrual payable	25,582,939	-
Bonus accrual	12,435,085	11,367,112
	435,626,380	**378,139,607**

Payables from exchange transactions - Non-current		
Magalies water payable	390,334,189	629,495,111

The Magalies Water payable has been disclosed as non-current payable as the balance is being disputed by the municipality. No payments were made relating to this debt in the past and previous financial years.

Split between current and non-current liabilities		
Current portion	435,626,382	378,139,609
Non-current portion	390,334,189	629,495,111
	825,960,571	**1,007,634,720**

Figures in Rand	2025	2024

10. Employee benefit obligations

Defined benefit plan

Post Retirement Medical Aid Benefits

Present value of the fund obligation at the beginning of the year	(86,250,888)	(75,868,309)
Current service cost	(6,884,357)	(5,869,255)
Current interest cost	(11,476,816)	(9,478,349)
Remeasurements	11,296,779	4,639,744
Payments made	505,202	325,281
	(92,810,080)	**(86,250,888)**

Long service bonus awards

Present value of the fund obligation at the beginning of the year	(24,438,284)	(23,459,424)
Current service cost	(1,833,557)	(1,792,976)
Current interest cost	(2,498,655)	(2,482,925)
Remeasurements	408,962	1,563,368
Payments made	1,984,291	1,733,673
	(26,377,243)	**(24,438,284)**

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

Total employee benefits		
Opening balance	(110,689,172)	(99,327,733)
Current service cost	(8,717,924)	(7,662,231)
Current interest cost	(13,975,471)	(11,961,274)
Remeasurements	11,705,741	6,203,112
Payments made	2,489,503	2,058,954
	(119,187,323)	**(110,689,172)**

Non-current liabilities	(114,249,039)	(108,199,679)
Current liabilities	(4,938,284)	(2,489,493)
	(119,187,323)	**(110,689,172)**

Calculation of remeasurements		
Remeasurements – Post retirement medical aid benefit	11,296,779	4,639,744
Remeasurements – Long service award	408,962	1,563,368
	11,705,741	**6,203,112**

10. Employee benefit obligations (continued)

Post Retirement Medical Aid Benefits

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 makes monthly contribution for health care arrangements to the following medical aid schemes:

- Bonitas
- Hosmed
- Keyhealth
- LA Health
- Samwumed

The most recent Actuarial Valuation of the Present value of the Defined Benefit Obligation were carried out at the 30 June 2025 by One Pangaea Expertise and Solutions, fellow of the Actuarial Society of South Africa. The present value of the Defined Benefit Obligation and the related current service and past service cost were measured using the projected unit credit method:

The members are made up as follows:

	Valuation at 30 June 2025	Valuation at 30 June 2024
Current (In Service) members	637	634
Continuation members (e.g. Retirees,widows,orphans)	13	11
	650	**645**

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

	2025	2024
Liability as at 01 July	(110,689,172)	(99,327,733)
Benefits paid	2,489,493	2,058,954
Net expense recognised in the statement of financial performance	(10,987,644)	(13,420,393)
	(119,187,323)	**(110,689,172)**

Net expense recognised in the statement of financial performance

	2025	2024
Current service cost	(8,717,914)	(7,662,231)
Interest cost	(13,975,471)	(11,961,274)
Remeasurements	11,705,741	6,203,112
	(10,987,644)	**(13,420,393)**

Calculation of actuarial gains and losses

	2025	2024
Remeasurements	(1,984,291)	(1,563,368)

Figures in Rand	2025	2024

10. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	11.96 %	13.35 %
Expected increase in salaries	5.89 %	7.74 %
Expected increase in healthcare costs	7.39 %	9.24 %
Net discount rates	4.26 %	3.76 %

GRAP 25 defines the determination of the discount rate as assumption, to be used as follows:

The discount rate reflects the Time Value of Money is the best approximated by reference to the market yields at the Reporting date on Government Bonds. Where there is no dip in the Market for Government Bonds with sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rates for longer maturities by extrapolating current market rates along the yield curves.

Expected retirement age	Valuation 2025	Valuation 2024
Female	65	65
Male	65	65

The effect of the major categories of plan assets is as follow: A nil value to the fair value of plan assets was assumed as there were no assets aside for post-employment medical subsidies funding that qualify as plan assets in terms of the requirements of GRAP 25.

The basis on which the discount rate has been determined is the relative levels of the discount rate and health care cost inflation to one another rather than the norminal values. The assumption regarding the relative levels of these two rates is our expectation of the long-term average.

Other assumptions

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

	One percentage point increase R	**One percentage point decrease R**
Effect on interest cost	13,131,627	10,110,325
Effect on service cost	7,922,717	6,031,887

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

	2025 R	2024 R	2023 R	2022 R	2021 R
Defined benefit obligation	92,810,080	86,250,888	77,897,769	89,217,878	66,960,723

10. Employee benefit obligations (continued)

The major categories of plan assets as a percentage of total plan assets are as follows:

Key actuarial assumptions used:

	2025	2024
Discount rate	9.07 %	10.66 %
CPI	3.49 %	5.50 %
Salary increased rate	4.49 %	6.50 %
Net discount rate	4.39 %	3.91 %

GRAP 25 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields (at the balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term of the obligations.

Long service awards

The long service bonus awards (LSA) plan are defined benefit plans. The municipality offers long service bonus awards for every five years of service completed, from ten years of service to 45 years inclusive.

The employees eligible for long service awards:

	2025	2024
Eligible employees	702	682

Average retirement age

The normal retirement age is 65 years. It has been assumed that the employees will retire at age 63 on average. This assumption implicitly allows for early retirement.

Withdrawal from service

If an employee leaves, the employer's liability in respect of that employee ceases.

Mortality rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used in the industry.

The Amounts recognised in the statement of financial position are as follows:	2025	2024	2023	2022	2021
Present value of the fund obligation	26,377,243	24,438,284	23,459,424	23,947,616	22,727,595

Sensitivity analysis on the unfunded accrued liability

Withdrawal Rate:
Illustrated below is the effect of high and lower withdrawal rates by increasing rate by 20% and decreasing the withdrawal rated by 20%: The adjustment will result in a 3,95% increase and 4,28% decrease in the accrued liability respectively.

	20% Lower R'	30 June 2025 Valuation basis R'	20% Higher R'
Opening accrued liability	27,506,538	26,377,243	25,334,749
Service cost	1,974,073	1,870,961	1,777,641
Net interest expense	2,302,380	2,200,239	2,105,973

General Earnings inflation rate:
The effect of a 1% per annum change in the general earnings inflation assumption is illustrated below:

10. Employee benefit obligations (continued)

	1% Decrease R'	30 June 2025 Valuation basis R'	1% Increase R'
Accrued liability	25,022,266	26,377,243	27,850,856
Current service cost	1,761,143	1,870,961	1,991,362
Expense cost	2,078,621	2,200,239	2,332,622

11. Unspent conditional grants and receipts

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.

See note 21 for reconciliation of grants from National/Provincial Government.

12. Provisions

Reconciliation of provisions - 2025

	Opening Balance	Additions	Utilised during the year	Total
Leave provision	38,342,900	24,983,179	(18,911,646)	44,414,433

Reconciliation of provisions - 2024

	Opening Balance	Additions	Utilised during the year	Total
Leave provision	39,480,765	4,824,811	(5,962,676)	38,342,900

13. Revenue

	2025	2024
Rendering of services	-	4,349
Service charges	170,652,576	81,011
Rental of facilities and equipment	434,764	412,279
Licences and permits	655,439	127,077
Other income	1,175,041	549,586
Interest received - investment	27,126,928	23,658,407
Government grants & subsidies	1,420,721,966	1,337,995,533
	1,620,766,714	**1,362,828,242**

The amount included in revenue arising from exchanges of goods or services are as follows:	2025	2024
Service charges	170,652,576	81,011
Rendering of services	-	4,349
Rental of facilities and equipment	434,764	412,279
Licences and permits	655,439	127,077
Other income	1,175,041	549,586
Interest received - investment	27,126,928	23,658,407
	200,044,748	**24,832,709**

The amount included in revenue arising from non-exchange transactions is as follows:	2025	2024
Taxation revenue		
Transfer revenue		
Government grants & subsidies	1,420,721,966	1,337,995,533

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

14. Service charges

Sale of water	170,552,928	-
Sewerage and sanitation charges	99,648	81,011
	170,652,576	**81,011**

From the current financial year, the district municipality billed Mahikeng Local Municipality for the sale of water.

15. Rental of facilities and equipment

Premises	434,764	412,279

16. Licences and permits

Health Certificates	655,439	127,077

17. Lease rentals on operating lease

Premises		
Premises and parking	1,882,515	1,710,800
Equipment		
Photocopying	288,738	435,471
	2,171,253	**2,146,271**

18. Other income

Sale of tender documents	356,248	499,333
Refunds	725,989	50,253
Discount received	92,804	-
	1,175,041	**549,586**

19. Interest received

Investment interest revenue		
Bank	27,126,928	23,658,407

Total interest income, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R27,126,928 (2024: R23,658,407).

20. Transfer and subsidies

Other subsidies		
Transfers to local municipalities	-	21,400,002

Figures in Rand	2025	2024

21. Government grants & subsidies

Operating grants		
Equitable share	1,110,786,000	1,042,786,656
Financial Management Grant	3,000,000	3,000,000
EPWP	2,291,000	1,845,000
LG SETA	746,742	724,877
	1,116,823,742	**1,048,356,533**
Capital grants		
Rural Roads Asset Management Grant	3,470,000	2,728,000
Municipal Infrastructure Grant	300,428,224	286,911,000
	303,898,224	**289,639,000**
	1,420,721,966	**1,337,995,533**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	309,189,224	294,484,000
Unconditional grants received	1,110,786,000	1,042,786,656
Restricted grants received	746,742	724,877
	1,420,721,966	**1,337,995,533**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Financial Management Grant

Current-year receipts	3,000,000	3,000,000
Conditions met - transferred to revenue	(3,000,000)	(3,000,000)
	-	-

Conditions still to be met - remain liabilities (see note 11).

Purpose of the grant is to provide direct support to municipalities to develop financial management and technical capacity for the implementation of the MFMA, its regulations and associated financial reforms.

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	30,363,687
Current-year receipts	342,414,000	286,911,000
Conditions met - transferred to revenue	(300,428,224)	(286,911,000)
Other grant adjustments	(41,985,776)	-
Surrendered	-	(30,363,687)
	-	-

Conditions still to be met - remain liabilities (see note 11).

Purpose of the grant is to provide specific capital finance for eradicating basic municipal infrastructure backlogs for poor households, microenterprises and social institutions servicing poor communities. And to provide specific funding for the development of asset management plans for infrastructure servicing the poor.

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

21. Government grants & subsidies (continued)

Expanded Public Works Programme

Current-year receipts	2,291,000	1,845,000
Conditions met - transferred to revenue	(2,291,000)	(1,845,000)
	-	-

Conditions still to be met - remain liabilities (see note 11).

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

Rural Roads Asset Management Grant

Balance unspent at beginning of year	-	453
Current-year receipts	3,470,000	2,728,000
Conditions met - transferred to revenue	(3,470,000)	(2,728,000)
Other movements	-	(453)
	-	-

Conditions still to be met - remain liabilities (see note 11).

The purpose of the grant is to assist rural district municipalities in setting up their road asset management systems, and to collect road and traffic data in line with the Road Infrastructure Strategic Framework for South Africa (RISFSA).

LG SETA

Current-year receipts	746,742	505,763
Conditions met - transferred to revenue	(746,742)	(505,763)
	-	-

Conditions still to be met - remain liabilities (see note 11).

Purpose of the grant is to aid in the development of a skilled and capable workforce supporting a responsive, accountable, efficient and effective local government system, through a range of learning programmes that focuses on scarce and critical skills in the respect of sectors covered by the LGSETA, the New Growth Path, the Industrial Development Action Plan, the National Skills Accord, the Green Accord, the Beneficiation Strategy of South Africa, the National Development Plan, Strategic Integrated Projects, the Rural Development Strategy, the Back to Basics Strategy, the Environmental Strategy and the Human Resource Development Strategy.

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

22. Employee related costs

Basic	275,450,007	259,377,507
Bonus	22,200,359	20,359,530
Medical aid - company contributions	29,790,434	27,308,599
Unemployment Insurance Fund	1,662,077	1,585,361
Leave pay provision charge	8,472,173	918,575
Defined contribution plans	10,798,015	8,278,441
Overtime payments	33,673,649	31,989,745
Car allowance	19,599,971	18,283,712
Housing benefits and allowances	1,695,785	1,128,112
Bargaining council	94,935	89,834
Pension fund contributions	50,433,522	47,053,940
Cellphone allowance	553,400	558,600
Stand-by allowance	6,132,870	5,501,219
Shift allowance	7,957,402	7,817,165
	468,514,599	**430,250,340**

Remuneration of Municipal Manager (Mr O Losaba)

Basic Salary	1,301,695	1,191,305
Car Allowance	182,812	182,812
Cellphone Allowance	18,000	27,000
Contributions to UIF, Medical and Pension Funds	225,482	241,187
Non-pensionable	20,340	16,950
Annual Bonus	195,805	195,805
	1,944,134	**1,855,059**

Remuneration of Chief Financial Officer (Mr S Mphato)

Annual Remuneration	-	32,127
13th Cheque	-	26,679
Contributions to UIF, Medical and Pension Funds	-	2,027
Leave payout	-	123,540
Non-pensionable	-	20,340
	-	**204,713**

Mr S Mphato was a Chief Financial Officer until 30 June 2023.

Remuneration of Senior Manager - Acting Chief Audit Executive (Mr S Oostruis)

Acting Allowance	77,245	-

Mr S Oostruis acted from April 2025 to end of the financial year.

Remuneration of Senior Manager - Corporate Services (Ms M Dambuza)

Annual Remuneration	-	32,127
13th Cheque	-	26,773
Contributions to UIF, Medical and Pension Funds	-	1,322
Non-pensionable	-	20,340
Leave payout	-	35,297
	-	**115,859**

Ms M Dambuza was a Senior manager until 31 July 2023.

Figures in Rand	2025	2024

22. Employee related costs (continued)

Remuneration of Senior Manager - Community services (Ms S Nkadimang)

Annual Remuneration	-	139,199
13th Cheque	-	26,773
Contributions to UIF, Medical and Pension Funds	-	3,585
Cellphone allowance	-	1,000
Non-pensionable	-	32,588
Leave payout	-	123,540
	-	**326,685**

Ms S Nkadimang was Senior Manager - Community Services unti 31 July 2023.

Remuneration of Senior Manager - Technical Services (Mr M Rassool)

Annual Remuneration	1,141,872	1,065,237
Car Allowance	138,239	138,239
Contributions to UIF, Medical and Pension Funds	189,598	208,807
Housing Allowance	132,000	132,000
Non-pensionable	20,340	20,340
Cellphone Allowance	12,000	12,000
Leave payout	-	70,594
	1,634,049	**1,647,217**

Remuneration of Senior Manager - Chief Audit Executive (Mr L Mosiane)

Annual Remuneration	483,972	923,359
Car Allowance	52,869	110,391
13th Cheque	35,697	53,545
Contributions to UIF, Medical and Pension Funds	85,969	178,854
Cellphone Allowance	5,000	12,000
Housing Allowance	62,296	107,081
Non-pensionable	20,340	185,460
Leave paid out	172,657	-
	918,800	**1,570,690**

Mr L Mosiane was the Chief Audit Executive until 31 December 2024.

Remuneration of the New Chief Financial Officer (Mrs G Moroane)

Annual Remuneration	1,006,953	1,250,173
Car Allowance	135,000	-
13th Cheque	112,559	-
Contributions to UIF, Medical and Pension Funds	188,846	136,321
Cellphone Allowance	12,000	11,000
Housing Allowance	90,000	-
Non-pensionable Allowance	18,645	-
	1,564,003	**1,397,494**

Mrs G Moroane was appointed as Chief Financial Officer from 01 August 2023.

Remuneration of Senior Manager - Acting Corporate Services (Adv A Pulenyane)

Acting Allowance	7,387	123,225

Adv A Pulenyane acted as Senior Manager for Corporate Services during the 2024 and 2025 financial years.

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

22. Employee related costs (continued)

Remuneration of Senior Manager - New Community Services (Ms M Molawa)

Annual Remuneration	979,695	993,297
Car Allowance	187,520	270,239
13th Cheque	112,559	-
Contributions to UIF, Medical and Pension Funds	247,239	260,347
Cellphone Allowance	12,000	12,000
Non-pensionable Allowance	20,340	-
	1,559,353	**1,535,883**

Ms M Molawa was appointed Senior manager - Community Services from 01 July 2023.

Remuneration of Senior Manager - Planning and Development (Mr T Ramorei)

Annual Remuneration	1,103,477	986,503
Car Allowance	160,032	160,032
Contributions to UIF, Medical and Pension Funds	239,094	249,602
Cellphone Allowance	12,000	12,000
Housing Allowance	120,000	120,000
	1,634,603	**1,528,137**

Mr T Ramorei was appointed Senior manager - Planning and Development from 11 July 2023.

23. Remuneration of councillors

Executive Mayor	1,262,378	1,213,573
Single Whip	958,533	923,482
Mayoral Committee Members	5,751,200	5,533,490
Speaker	1,019,297	981,501
Councillors	6,579,460	6,421,076
	15,570,868	**15,073,122**

The remuneration of Councillors is disclosed in detail in note 37 - Related Parties.

In-kind benefits

The municipality has granted the right of use of municipal vehicles to the Municipal Mayor and Municipal Speaker at no cost.

Additional information

The salaries, allowance and benefits of councillors are within the upper limits of the framework envisaged in Section 219 of the Constitution of South Africa.

24. Depreciation and amortisation

Property, plant and equipment	189,892,033	201,600,937
Investment property	453,824	-
	190,345,857	**201,600,937**

25. Impairment loss

Impairments		
Property, plant and equipment	(22,128)	41,598,667
Investment property	(15,983,419)	-
	(16,005,547)	**41,598,667**

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

26. Finance costs

Interest on late payments to suppliers	97,311	236,949
Interest on post-retirement benefits	13,975,471	11,961,274
	14,072,782	**12,198,223**

27. Auditors' remuneration

Fees	7,653,277	7,030,368

28. Inventory consumed

Water distribution	199,054,474	15,707,405

29. General expenses

Assessment rates & municipal charges	283,188	3,731,887
Auditors remuneration	7,653,277	7,030,368
Bank charges	178,393	167,137
Consumables	3,732,461	1,293,362
Hire	2,152,184	8,368,403
Insurance	4,097,814	4,836,505
IT expenses	7,648,257	3,911,751
Marketing	997,701	406,191
Motor vehicle expenses	1,045,112	1,101,483
Fuel and oil	23,412,319	26,729,059
Agency fees	675,516	489,388
Printing and stationery	980,147	1,336,165
Promotions	-	1,026,047
Staff welfare	4,122,319	4,280,564
Subscriptions and membership fees	5,776,776	13,782,305
Telephone and fax	6,286,137	6,614,995
Transport and freight	495,580	632,556
Training	1,401,761	107,862
Travel - local	2,259,296	788,654
Electricity	28,412,170	31,664,246
Uniforms	6,352,821	7,626,122
Accommodation	2,991,564	2,080,507
Sitting allowance	494,112	408,647
	111,448,905	**128,414,204**

30. Debt relief

Debt relief - Magalies Water	180,872,485	-

Magalies Water has taken a resolution to write off an amount of R240,653,929 (R180,872,485 VAT exclusive) of the outstanding debt that is owed to the Water Board.

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

31. Contracted services

Outsourced Services		
Catering services	1,020,054	1,013,030
Security Services	32,885,050	34,618,730
Bioremediation costs	470,303	-
Consultants and Professional Services		
Business and Advisory	16,099,114	40,876,223
Infrastructure and Planning	3,511,748	1,452,532
Legal cost	8,218,746	25,448,848
Contractors		
Repairs and maintenance of building and facilities	36,594,305	123,439,338
Sewerage Services	63,439,708	141,940,596
	162,239,028	**368,789,297**

32. Cash generated from operations

Surplus	664,767,984	68,470,404
Adjustments for:		
Depreciation and amortisation	190,345,857	201,600,937
Gain on sale of assets and liabilities	853,079	51,369,482
Impairment	(16,005,547)	41,598,667
Movements in retirement benefit assets and liabilities	8,498,151	13,274,334
Movements in provisions	6,071,533	(1,137,865)
Inventory losses or write-downs	311,658	12,013,000
Other non-cash items (debt relief)	(180,872,485)	-
Changes in working capital:		
Inventories	(5,256,235)	45,311,211
Receivables from exchange transactions	(119,700,608)	31,943,642
Other receivables from non-exchange transactions	41,985,776	(42,630,970)
Payables from exchange transactions	(801,664)	(158,309,181)
Unspent conditional grants and receipts	-	(30,364,212)
	590,197,499	**233,139,449**

33. Operating surplus

Operating surplus for the year is stated after accounting for the following:

Operating lease charges		
Premises		
• Parking	1,882,515	1,710,800
Equipment		
• Printing and photocopying	288,738	435,471
	2,171,253	**2,146,271**

Loss on sale of property, plant and equipment	(853,079)	(51,369,482)
Impairment on property, plant and equipment	(22,128)	41,598,667
Impairment on investment property	(15,983,419)	-
Depreciation on property, plant and equipment	189,892,033	201,600,937
Depreciation on investment property	453,824	-
Employee costs	484,085,467	445,323,462

34. Financial instruments disclosure

Categories of financial instruments

2025

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	156,774,571	156,774,571
Other receivables from non-exchange transactions	-	671,393	671,393
Cash and cash equivalents	240,792,803	-	240,792,803
Other financial assets	410,832	-	410,832
	241,203,635	**157,445,964**	**398,649,599**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	692,739,021	692,739,021

2024

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	62,656,902	62,656,902
Other receivables from non-exchange transactions	-	42,657,169	42,657,169
Cash and cash equivalents	134,238,815	-	134,238,815
Other financial assets	378,192	-	378,192
	134,617,007	**105,314,071**	**239,931,078**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	914,560,643	914,560,643

Figures in Rand	2025	2024

35. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	389,558,063	136,462,935
Total capital commitments		
Already contracted for but not provided for	389,558,063	136,462,935

Total commitments

Total commitments		
Authorised capital expenditure	389,558,063	136,462,935

This committed expenditure relates to property and will be financed by available bank facilities, existing cash resources and internally generated funds.

Prior period error		
Opening balance as previously stated	-	135,663,937
Prior period error adjustment	-	798,998
Restated opening balance	**-**	**136,462,935**

The following deficiencies in the reporting of capital commitments have resulted in a prior period error:

- Incorrect Retention Amounts: The inclusion or exclusion of retention amounts was incorrectly calculated, resulting in the misstatement of capital commitments by an erroneous amount.

- Incorrect VAT Treatment: The VAT amounts associated with capital commitments were either incorrectly included or excluded, leading to discrepancies in the reported capital obligations.

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

36. Contingencies

Contingent liabilities

A contingent liability is:
(a) 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 entity;
(b) a present obligation that arises from past events but is not recognised because:
(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
(ii) the amount of the obligation cannot be measured with sufficient reliability.

1. Beyond Build Construction JV // NMMDM	2,875,303	2,875,303
2. Geldenhuys et al // NMMDM	139,338,407	139,338,407
3. Quantibuild (Pty) Ltd // NMMDM	2,153,631	2,153,631
4. Ultimate Dynamics and Proper Consulting JV // NMMDM	-	1,665,496
5. Al Jaza Investments (Pty) Ltd // NMMDM	6,185,983	6,185,983
6. Hundred Percent Blackstone Suppliers Projects	-	500,000,000
7. Naphtronics (Pty) Ltd // NMMDM	19,796,158	19,796,158
8. Khethwayo Construction JV // NMMDM	-	5,498,434
9. Ousese Matlape//NMMDM	5,500,000	-
10. Themak Consulting CC // NMMDM	45,298,487	-
11. Tshenolo Resources (Pty) Ltd // NMMDM	11,000,000	-
	232,147,969	**677,513,412**

1. Beyond Build Construction JV // NMMDM

Beyond Build Construction is suing Ngaka Modiri Molema District Municipality for R2,875,303 in unpaid fees related to a completed water supply project. The Municipality failed to pay despite a final invoice and formal demand.

2. Geldenhuys et al // NMMDM

In 2007, Ngaka Modiri Molema District Municipality agreed to buy a farm from Geldenhuys but later withdrew due to the high price. Legal and arbitration efforts followed, with delays caused by legal representation changes and the COVID-19 pandemic, and the matter remains unresolved.

3. Quantibuild (Pty) Ltd // NMMDM

Quantibuild was awarded over R2,153,631 in 2019 for unpaid work on wastewater plants, but the Municipality appealed. The case is ongoing, with a final judgement still pending, and legal costs estimated at R500,000.

4. Ultimate Dynamics and Proper Consulting JV // NMMDM

The Municipality received a Letter of Demand from Ultimate Dynamics and Proper Consulting JV for unlawful termination of contract and failure to pay outstanding invoices. The matter was withdrawn.

5. Al Jaza Investments (Pty) Ltd // NMMDM

Al Jaza Investments and Mohamed Shukran (Pty) Ltd are suing Ngaka Modiri Molema and Ditsobotla Municipalities for R6,18 million, alleging fire damage due to negligent firefighting response in a 2014 incident.

6. Hundred Percent Blackstone Suppliers Projects

Hundred Percent Blackstone Suppliers Projects accuses the Municipality of stealing its smart pre-paid meter reading concept, claiming a similar tender was later advertised. The Municipality denies the allegation, stating the tender was awarded in 2015/2016 to a different company, making the claim unfounded. The matter has been prescribed.

7. Naphtronics (Pty) Ltd // NMMDM

Naphtronics is claiming over R19.7 million plus interest and arbitration costs from Ngaka Modiri Molema District Municipality for unpaid security services, after rejecting a R7.5 million settlement offer. The dispute stems from unpaid invoices under a 2014 contract.

Notes to the Annual Financial Statements

36. Contingencies (continued)

8. Khethwayo Construction JV // NMMDM

In November 2013, Ngaka Modiri Molema District Municipality pursued a claim against Bagorosi Consulting over a terminated contract and excess payments. Summons have been prepared and are ready to be served. There is currently no movement on the case.

9. Ousese Matlape//NMMDM

Ms Matlape is suing the Municipality for over R5.5 million, claiming her son suffered permanent brain injuries after a municipal gate fell on him in 2014, impacting his future earning potential due to negligence.

10. Themak Consulting CC // NMMDM

Themak Consulting CC issued a letter of demand alledging that the Municipality failed to honor the invoices for services rendered as a result of the conduct they have sought appropriate relief. The total amount which are due and payable by the Municipality amounts to R45,298,487. The matter is awaiting adjudication

11. Tshenolo Resources (Pty) Ltd // NMMDM

Municipality is sued for an amount of R11,000,000 for an alleged services provided and business rescue portion wrote as a letter requesting joint meeting and the Municipality is awaiting the proposed meeting and the matter is still pending.

Prior period error - Contingent liabilities

During the annual financial statements preparation for the year ending 30/06/2025 it was noted that contingent liabilities were understated with an amount of R12,296,158 resulting from an error in the disclosure for Naphtronics (Pty) Ltd and overstated with an amount of R9,939,988 resulting from Kawo Construction CC which should have not been disclosed. These errors have been corrected retrospectively and the total balance has been adjusted as follows;

Increase in contingent liabilities	As previously reported	Correction of error	Restated
Contingent liabilities	675,157,242	2,356,170	677,513,412

Changes in contingent liabilities		
Decrease in Kawo Construction contingen	-	(9,938,988)
Increase in Naphtronics (Pty) Ltd contingency	-	12,296,158
	-	**2,357,170**

Figures in Rand	2025	2024

37. Related parties

Relationships	
Accounting Officer	Refer to accounting officers' report note
Members of key management	O.A. Losaba - Municipal Manager L.I. Mosiane - Chief Audit Executive G.P Moroane - Chief Financial Officer M.J. Rassool - Technical Services M.D. Dambuza - Corporate Resource Support Services (until July 2023) A Pulenyane - Acting Corporate Resource Support Services (acted from July 2023) S.M Nkadimang - Community Services (until July 2023) M Molawa - Community Services (appointed July 2023) T Ramorei - Planning and Development (appointed July 2023)

For the remuneration of the above key management personnel refer to employee related cost note.

Remuneration of management

Remuneration of Councillors

2025

Name	Basic Salary	Car Allowance	Cellphone Allowance	Medical Aid Contribution	Pension Fund Contribution	Total
Speaker	728,266	195,732	47,004	-	48,294	1,019,296
Chief Whip	854,285	-	47,004	-	57,244	958,533
MMC	4,265,901	752,683	282,024	7,175	443,416	5,751,199
Councillors	5,648,589	311,375	376,462	39,893	203,141	6,579,460
Executive Mayor	858,187	269,602	47,004	-	87,585	1,262,378
	12,355,228	**1,529,392**	**799,498**	**47,068**	**839,680**	**15,570,866**

2024

Name	Basic Salary	Car Allowance	Cellphone Allowance	Medical Aid Contribution	Pension Fund Contribution	Total
Executive Mayor	832,943	247,135	53,208	-	80,287	1,213,573
Speaker	684,331	195,732	53,208	-	48,230	981,501
Chief Whip	813,091	-	53,208	-	57,183	923,482
MMC	4,023,445	752,683	319,248	-	438,114	5,533,490
Councillors	5,440,398	357,126	437,075	36,799	149,678	6,421,076
	11,794,208	**1,552,676**	**915,947**	**36,799**	**773,492**	**15,073,122**

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

38. Risk management

Financial risk management

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

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

Liquidity risk

The Liquidity risk is the risk that the municipality might not be able to meet its obligations as they fall due. The municipality has a prudent liquidity risk management strategy which ensure that it maintains sufficient cash and cash equivalents to meet its objective as they fall due. The short-term investments are invested over terms that ensure that the municipality has a short term maturing every month to reduce the liquidity risk. The municipality also manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's derivative financial instruments which will be settled on a gross basis into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amount 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.

Financial liabilities		
Payables from exchange transactions	239,792,170	367,219,791

Credit risk

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

Receivables from exchange transactions

Receivables from exchange transactions are amounts owing by customers, and are presented net of impairment losses. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The impact of the COVID-19 pandemic on the economy and consumers will affected the impairment provision for the current year. The provision estimates were adjusted to account for this increase in risk of missed payments or default. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Council. The utilisation of credit limits is regularly monitored.

Cash and cash equivalents and investments

The municipality limits its exposure to credit risk by investing with only the major commercial banks in South Africa that have a sound credit rating and within the specific guidelines set in the council approved cash management and investment policy. Accordingly, the municipality does not consider its exposure to credit risk significant.

The carrying amount of the financial assets represents the maximum credit exposure and the carrying amount of the financial assets as at 30 June was as follows:

Financial assets	2025	2024
Cash and cash equivalents	240,792,803	134,238,815
Receivables from non-exchange transactions	1,202,682	43,188,458
Receivables from exchange transactions	149,367,642	2,865,383
Other financial assets	410,832	378,192

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

38. Risk management (continued)

Market risk

Interest rate risk

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

The municipality's interest rate risk arises from short term deposits. Short term deposits issued at variable rates expose the municipality to cash flow interest rate risk. On the other hand, short term deposits issued at fixed rates expose the municipality to fair value interest rate risk. As at 30 June 2025 and 30 June 2024, the municipality's deposits and bank balances at fixed rate were denominated in the Rand.

Bank		
First National Bank (B)	134,534,231	39,588,677
ABSA	18,266,220	91,874,369
Nedbank	2,991,882	2,770,044
Standard Bank	85,000,000	-
	240,792,333	**134,233,090**

39. Events after the reporting date

On 13 October 2025, the Auditor-General of South Africa, issued a Certificate of Debt (CoD) to the Municipal Manager amounting to R4,616,075, in terms of section 5(1)(d) of the Public Audit Act. This certificate confirms that the municipality incurred a material financial loss due to inflated tender claims for water tankering services, and that the Municipal Manager is now personally liable for this amount. The issuance of the CoD provides evidence of a condition that existed at the reporting date and therefore constitutes an adjusting event in terms of GRAP 14 - Events after the reporting date.

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

40. Unauthorised expenditure

Opening balance as previously reported	10,624,068,060	10,114,211,095
Add: Unauthorised expenditure - current	303,461,602	509,856,965
Less: Amounts written off - prior periods	(1,271,263,024)	-
Closing balance	**9,656,266,638**	**10,624,068,060**

Unauthorised expenditure: per vote level

2025	**Operational**	**Capital**
Vote 2 - Municipal Manager	23,902,341	-
Vote 3 - Finance	279,559,261	-
	303,461,602	**-**

2024	**Operational**	**Capital**
Vote 7 - Public Works & Basic Services	509,856,965	-

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

41. Fruitless and wasteful expenditure

Opening balance as previously reported	26,722,827	26,245,103
Add: Fruitless and wasteful expenditure identified - current	97,579	477,724
Less: Amount written off - prior period	(3,869,628)	-
Closing balance	**22,950,778**	**26,722,827**

Fruitless and wasteful expenditure is presented inclusive of VAT.

Details of fruitless and wasteful expenditure

	Disciplinary steps taken/criminal proceedings	2025	2024
Interest and penalties on late payment	No consequence management followed	97,579	477,724

Analysis of expenditure awaiting write-off

There were no expenditure awaiting to be written as the investigation is still underway for the current year.

Amount written-off

There were no expenditure awaiting to be written as the investigation is still underway for the current year.

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

42. Irregular expenditure

	2025	2024
Opening balance as previously reported	5,239,696,897	4,727,974,998
Add: Irregular expenditure - current	539,976,371	516,903,116
Add: Irregular expenditure - prior period	25,856,219	96,256,473
Less: Amounts written off by Council - Irrecoverable	-	(101,437,690)
Closing balance	**5,805,529,487**	**5,239,696,897**

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

	Disciplinary steps taken/criminal proceedings	2025	2024
Bid adjudication and evaluation committee composition incorrect	No consequence management followed	-	4,082,312
Shorter day advertisement period	No consequence management followed	1,959,258	1,723,225
Supplier not tax compliant	No consequence management followed	-	9,751,096
No Supply Chain Management processes were followed	No consequence management followed	25,989,782	47,615,616
Irregular extension of contracts	No consequence management followed	11,206,049	19,274,037
Other non compliance with SCM Regulations	No consequence management followed	500,821,282	432,387,658
Declaration of interest not submitted	No consequence management followed	-	1,109,230
Three quotations not submitted	No consequence management followed	-	959,942
		539,976,371	**516,903,116**

Irregular expenditure is calculated inclusive of VAT.

43. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government (SALGA)

Opening balance	5,038,809	-
Current year subscription / fee	4,640,177	5,038,809
Amount paid - current year	(4,640,177)	-
Amount paid - previous years	(5,038,809)	-
	-	**5,038,809**

Audit fees

Current year subscription / fee	8,801,268	4,715,047
Amount paid - current year	(8,801,268)	(4,715,047)
	-	**-**

PAYE, SDL and UIF

Opening balance	6,955,588	5,494,459
Current year subscription / fee	85,391,348	76,493,318
Amount paid - current year	(85,406,190)	(75,032,189)
	6,940,746	**6,955,588**

Pension and Medical Aid Deductions

Current year subscription / fee	121,406,865	112,181,104
Amount paid - current year	(121,406,865)	(112,181,104)
	-	**-**

VAT

VAT is received and paid as required per the Value Added Tax Act No. 89 of 1991 (VAT Act).

VAT is applied to all relevant goods and services as stated in the VAT Act and the amount thereof is determined in terms of the VAT Act. VAT is submitted and paid on a monthly basis.

Figures in Rand	2025	2024

44. Deviation from supply chain management regulations

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

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

The majority of items mentioned had to be addressed to emergency circumstances. The balance of items were due to procurement from sole providers:

Class	Month	Supplier	Description	2025	2024
Cigfaro is the only institution that provides conference for changes or developments in the technology within the government	13/10/2023	Cigfaro	Conference fees	-	20,603
Attendance of MSCOA Annual budget virtual conference organized by Cigfaro with treasury-Cigfaro is only institution that provides this workshop	01/12/2023	Cigfaro	Conference fees	-	5,305
Professional membership fees paid for four officials for Chartered institure of government finance,audit & risk officers	13/12/2023	Cigfaro	Membership Fees	-	24,150
CaseWare is a sole-provider system for annual financial statements	30/11/2023	AdaptIT	Membership Fees	-	167,895
There was a main sewer spillage on the Bray road which resulted in tons of dead fish in Tontonyane dam as a result there was an emergency bioremediation of the polluted dam	14/08/2023	Muri Enviro Consulting and waste management (Pty) Ltd	Removal, transport and disposal of dead fish	-	798,491
There was a main sewer spillage on the Bray road which resulted in tons of dead fish in Tontonyane dam as a result there was an emergency bioremediation of the polluted dam	02/11/2023	Muri Enviro Consulting and waste management (Pty) Ltd	Removal, transport and disposal of dead fish	-	1,344,063
There was a main sewer spillage on the Bray road which resulted in tons of dead fish in Tontonyane dam as a result there was an emergency bioremediation of the polluted dam	10/01/2024	Muri Enviro Consulting and waste management (Pty) Ltd	Removal, transport and disposal of dead fish	-	128,880
Diversion of sewer on the Brayroad, Ramosadi & surrounding villages, bulk sewer pipeline	14/12/2023	Excellence Academy	Burst pipes/Diversion of sewerage	-	2,955,960
Diversion of sewer on the Brayroad, Ramosadi & surrounding villages, bulk sewer pipeline	22/01/2024	Excellence Academy	Burst pipes/Diversion of sewerage	-	3,564,000

Notes to the Annual Financial Statements

Figures in Rand				2025	2024

44. Deviation from supply chain management regulations (continued)

Diversion of sewer on the Brayroad, Ramosadi & surrounding villages, bulk sewer pipeline	16/02/2024	Excellence Academy	Burst pipes/Diversion of sewerage	-	2,955,960
Diversion of sewer on the Brayroad, Ramosadi & surrounding villages, bulk sewer pipeline	22/03/2024	Excellence Academy	Burst pipes/Diversion of sewerage	-	3,240,000
Annual GIS maintenance renewal	21/11/2023	ESRI South Africa	Renewal fees	913,154	869,148
Cigfaro is the only institution that provides conference for changes or developments in the technology within the government	14/02/2025	Cigfaro	Conference fees	18,680	-
Shortlisting and interviewing of employees	26/11/2024	Gijima Holdings	Consulting	37,565	-
Repairs and maintenance of the kitchen	06/03/2025	Karabo Universal Enterprise	Repairs and maintenance	156,760	-
				1,126,159	**16,074,455**

45. MFMA disclosure on SCM Regulation 45

In the current financial year, there are no awards of more the R2,000 that were made to a spouse, child or parent of a person in service of the state.

46. New standards and interpretations

46.1 Standards and interpretations effective and adopted in the current year

In the current year, there are no new standards and interpretations that are effective for the current financial year and that are relevant to the municipality's operations.

46.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2025 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 2023 Improvements to the Standards of GRAP 2023	No effective date set	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements (Going Concern)	No effective date set	Unlikely there will be a material impact
• GRAP 103 (amended): Heritage Assets	No effective date set	Unlikely there will be a material impact
• GRAP 104 (as revised): Financial Instruments	01 April 2025	Not expected to impact results but may result in additional disclosure

47. Going concern

We draw attention to the fact that at 30 June 2025, the municipality had an accumulated surplus of R 5,150,084,805 and that the municipality's total assets exceed its liabilities by R 5,150,084,805.

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.

Management therefore believes that the going concern assumption under which the financial statements have been prepared is appropriate on the basis of the above financial performance and financial position.

Notes to the Annual Financial Statements

48. Budget differences

Material differences between budget and actual amounts

48.1 The difference between the actual income and the budgeted amount is due to the reconfiguration of tariff policy between water service provider (Mafikeng Local) and the water service authority (NMMDM).

48.2 The difference between the actual amount and the final budget is due to the sale of tenders, which are included in the rendering of services.

48.3 Revenue was realised from rental of flats at Lehurutse, therefore resulting in an increase of revenue.

48.4 The actual amount is more than the final budget, this is due to new spaza shop policy that obligates spaza owners to register their businesses and get licences, the municipality anticipated that they will earn less income than the actual amount received.

48.5 The income earned on other income is from insurance refund received.

48.6 The actual amount is more than the final budget, this is due to more interest earned on their call accounts.

48.7 The actual depreciation is more than the budgeted amount. This is due to more property, plant and equipment being acquired during the year than anticipated.

48.8 The substantial rise suggests a higher reliance on external services providers, possibly for infrastructure maintenance,water and sanitation projects or specialised municipal functions.

48.9 The initial budget was removed 100% on the final budget this is due to council resolution on reprioritisation of expenditure to water infrastructure projects.

48.10 This is due to actuarial gains and losses are not budgeted for.

48.11 The variance is due to Magalies Water debt relief. The material difference is due to the conclusion made on disputed invoices on long outstanding debt.

48.12 Inventory losses and write-downs are not budgeted for.

48.13 The difference between the actual amount and the final budget is due to the change in the application on accounting for VIP toilets inventory.

48.14 The actual debt is more than the budgeted amount due to the reconfiguration of tariff policy between water service provider (Mafikeng local) and the water service authority (NMMDM).

48.15 The actual receivables is more than the budgeted amount due to a prior MIG allocation surrendered to Treasury.

48.16 The difference between the actual and the budgeted amount is due to better cash management controls being implemented.

48.17 The budgeted amount was going to be used to settle the Magalies debt.

48.18 The employee benefit obligation is not budgeted for.

48.19 Bulk of the difference is caused by the Magalies debt, which is currently being disputed.

48.20 Impairment losses are not budgeted for.

48.21 Gains and losses on disposal of assets are not budgeted for.

Notes to the Annual Financial Statements

48. Budget differences (continued)

Changes from the approved budget to the final budget

48.1 The adjustment to the budget were made as the municipality did not anticipate more income from the services charged.

48.2 The difference between the budgets amounts is due to the municipality anticipating that less income would be earned due to anticipation of decline in rendering of services (Sales of tender documents).

48.3 The difference between the budgets amounts is due to the municipality anticipating less income would be collected on rental of facilities and equipment.

48.4 The municipality anticipated that they will earn more income on licence and permits because of the new Spaza shop policies and licenses that needed to be issued out and adjusted it to R404,604.

48.5 The municipality anticipated that there will be no other income in the current financial period.

48.6 The initial budget amount was adjusted after the municipality anticipated that they will earn more income on their call accounts.

48.7 The difference between the budget amounts is of the assumption that the municipality would dispose assets.

48.8 The substantial rise suggests a higher reliance on external services providers, possibly for infrastructure maintenance,water and sanitation projects or specialised municipal functions.

48.9 The initial budget was removed 100% on the final budget this is due to council resolution on reprioritisation of expenditure to water infrastructure projects.

48.10 This is due to actuarial gains and losses are not budgeted for.

48.11 The difference is due to Magalies debt relief. The material difference is due to the conclusion made on disputed invoices on long outstanding debt.

48.12 Inventory losses and write-downs are not budgeted for.

48.13 The municipality anticipated that they will have less inventories of R4 million, and adjusted the final budget amount.

48.14 The adjustment to the budget was made as the municipality did not anticipate more income from the services charged.

48.15 No difference between the initial and final budget.

48.16 This was a result of data strings complication due to rollover journals.

48.17 The budgeted amount was going to be used to settle the Magalies debt.

48.18 The employee benefit obligation is not budgeted for.

48.19 Bulk of the difference is caused by the Magalies debt, which is currently being disputed.

48.20 The municipality does not budget for impairments.

48.21 The municipality does not budget for losses.

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

49. Segment information

General information

Identification of segments

The district municipality is organised and reports to management on the basis of eight major functional areas: Executive & Council, Municipal Manager, Community Services, Corporate Services, Governance / Internal Audit, Development & Town Planning, Public Works & Basic Services and Finance. The segments were organised around the type of service delivered and the target market. Management uses these same segments for determining strategic objectives.

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 district municipality does not have geographical segments as it operates within its area of jurisdiction in the North West Province. Segments were aggregated on the basis of services delivered to its residents.

Notes to the Annual Financial Statements

Figures in Rand

49. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2025

	Executive & Council	Municipal Manager	Community Services	Corporate Services	Governance / Internal Audit	Development & Town Planning	Public Works & Basic Services	Finance	Total
Revenue									
Service charges	-	-	-	-	-	-	-	170,652,576	170,652,576
Rental of facilities and equipment	-	-	-	434,764	-	-	-	-	434,764
Licences and permits	-	-	-	-	-	-	-	655,439	655,439
Other income	-	-	92,804	-	-	-	-	1,082,237	1,175,041
Interest received - investment	-	-	-	-	-	-	-	27,126,928	27,126,928
Government grants & subsidies	-	-	-	-	-	3,470,000	295,805,667	1,121,446,299	1,420,721,966
Magalies debt relief	-	-	-	-	-	-	-	180,872,485	180,872,485
Actuarial gains and losses	-	-	-	-	-	-	11,705,741	-	11,705,741
Total segment revenue	**-**	**-**	**92,804**	**434,764**	**-**	**3,470,000**	**307,511,408**	**1,501,835,964**	**1,813,344,940**
Municipality's revenue									**1,813,344,940**
Expenditure									
Employee related costs	(7,102,192)	(34,159,877)	(85,006,978)	(53,106,719)	(4,172,396)	(27,553,857)	(168,869,707)	(88,542,874)	(468,514,600)
Remuneration of councillors	(15,276,231)	-	-	(48,295)	-	-	-	(246,341)	(15,570,867)
Depreciation and amortisation	-	-	(3,652,380)	-	-	-	-	(170,710,058)	(174,362,438)
Finance costs	-	-	-	(14,037,411)	-	-	-	(35,371)	(14,072,782)
Lease rentals on operating leases	-	(71,187)	(269,664)	(1,541,664)	-	-	-	(288,738)	(2,171,253)
Inventory consumed	-	-	(6,066,252)	-	-	-	(192,988,222)	-	(199,054,474)
Debt impairment	-	-	-	-	-	-	-	-	-
Contracted services	(3,675,896)	(320,839)	(35,115,010)	(5,961,077)	-	(1,106,812)	(39,785,307)	(76,274,087)	(162,239,028)
General expenses	(3,842,546)	(7,204,849)	(3,016,014)	(78,656,829)	(655,619)	(2,095,896)	(6,268,767)	(9,708,385)	(111,448,905)
Gains and losses on disposals of assets	-	-	-	-	-	-	-	(853,079)	(853,079)
Inventories losses/write-downs	-	-	-	-	-	-	(311,658)	-	(311,658)
Impairment loss	-	-	-	-	-	-	-	22,128	22,128
Total segment expenditure	**(29,896,865)**	**(41,756,752)**	**(133,126,298)**	**(153,351,995)**	**(4,828,015)**	**(30,756,565)**	**(408,223,661)**	**(346,636,805)**	**(1,148,576,956)**

Notes to the Annual Financial Statements

Figures in Rand

	Executive & Council	Municipal Manager	Community Services	Corporate Services	Governance / Internal Audit	Development & Town Planning	Public Works & Basic Services	Finance	Total
49. Segment information (continued)									
Total segmental surplus/(deficit)	**(29,896,865)**	**(41,756,752)**	**(133,033,494)**	**(152,917,231)**	**(4,828,015)**	**(27,286,565)**	**(100,712,253)**	**1,155,199,159**	**664,767,984**
Assets									
Current assets									
Inventory	-	-	969,423	1,011,512	-	-	2,175,582	6,651,653	10,808,170
Receivable from exchange transactions	-	-	-	-	-	-	145,545,440	36,812,070	182,357,510
Receivable from non-exchange transactions	-	-	-	-	-	-	-	671,393	671,393
Cash and cash equivalents	-	-	-	(1,847,548,092)	-	-	-	2,088,340,895	240,792,803
Non-current assets									
Investment property	-	-	-	-	-	-	-	24,649,780	24,649,780
Property, plant and equipment	-	20,607,996	188,713	31,179,651	2,256,010	287,980	5,498,635,875	126,800,417	5,679,956,642
Other financial assets	-	-	-	-	-	-	-	410,832	410,832
Total segment assets	**-**	**20,607,996**	**1,158,136**	**(1,815,356,929)**	**2,256,010**	**287,980**	**5,646,356,897**	**2,284,337,040**	**6,139,647,130**
Total assets as per Statement of financial Position	-	-	-	-	-	-	-	-	6,139,647,130
Liabilities									
Current liabilities									
Payables from exchange transactions	-	-	-	-	-	486,289	18,664,526	(845,111,384)	(825,960,569)
Employee benefit obligation - current	-	-	-	-	-	-	-	(4,938,284)	(4,938,284)
Provisions	-	-	-	-	-	-	-	(44,414,433)	(44,414,433)
Unspent grants	-	-	-	-	-	(1,984,373)	(2,418,513,050)	2,420,497,423	-
Non-current liabilities									
Employee benefit obligation - Non-current	-	-	-	-	-	-	-	(114,249,039)	(114,249,039)
Total segment liabilities	**-**	**-**	**-**	**-**	**-**	**(1,498,084)**	**(2,399,848,524)**	**1,411,784,283**	**(989,562,325)**
Total liabilities as per Statement of financial Position									**(989,562,325)**

49. Segment information (continued)

2024

	Executive & Council	Municipal Manager	Community Services	Corporate Services	Governance / Internal Audit	Development & Town Planning	Public Works & Basic Services	Finance	Total
Revenue									
Service charges	-	-	-	-	-	-	-	81,011	81,011
Commission income	-	-	-	-	-	-	4,349	-	4,349
Rental of facilities and equipment	-	-	-	412,279	-	-	-	-	412,279
Licences and permits	-	-	-	-	-	-	-	127,077	127,077
Other income	-	-	-	-	-	-	-	549,586	549,586
Interest received - investment	-	-	-	-	-	-	-	23,658,407	23,658,407
Government grants & subsidies	-	-	-	-	-	(1,416,760)	286,911,000	1,052,501,294	1,337,995,534
Actuarial gains	-	-	-	-	-	-	6,203,112	-	6,203,112
Total segment revenue	**-**	**-**	**-**	**412,279**	**-**	**(1,416,760)**	**293,118,461**	**1,076,917,375**	**1,369,031,355**
Entity's revenue									**1,369,031,355**
Expenditure									
Employee costs	(53,763,269)	(46,823,341)	(58,945,064)	(54,403,448)	(1,271,054)	(27,777,215)	(98,240,338)	(89,026,612)	(430,250,341)
Remuneration of councillors	(14,591,994)	-	-	(48,230)	-	-	-	(432,898)	(15,073,122)
Depreciation and amortisation	-	-	-	-	-	-	-	(201,600,937)	(201,600,937)
Finance costs	-	-	-	(12,156,902)	-	-	-	(41,321)	(12,198,223)
Lease rentals on operating leases	-	(308,000)	(1,402,800)	-	-	-	-	(435,471)	(2,146,271)
Inventory consumed	-	-	-	-	-	-	(15,707,405)	-	(15,707,405)
Contracted services	(855,086)	(4,315,550)	(53,233,142)	(3,436,726)	-	(149,800)	(128,130,642)	(178,668,351)	(368,789,297)
Transfers and subsidies	-	-	-	-	-	(5,000,000)	(16,400,002)	-	(21,400,002)
Gains and losses on disposals of assets	-	-	-	-	-	-	-	(51,369,482)	(51,369,482)
Inventory losses and write downs	-	-	-	-	-	-	(12,013,000)	-	(12,013,000)
General expenses	(2,939,386)	(6,627,932)	(3,735,141)	(90,099,063)	(276,138)	(2,574,372)	(10,746,788)	(11,415,384)	(128,414,204)
Impairment loss	-	-	-	-	-	-	-	(41,598,667)	(41,598,667)
Total segment expenditure	**(72,149,735)**	**(58,074,823)**	**(117,316,147)**	**(160,144,369)**	**(1,547,192)**	**(35,501,387)**	**(281,238,175)**	**(574,589,123)**	**(1,300,560,951)**
Total segmental surplus/(deficit)	**(72,149,735)**	**(58,074,823)**	**(117,316,147)**	**(159,732,090)**	**(1,547,192)**	**(36,918,147)**	**11,880,286**	**502,328,252**	**68,470,404**

Notes to the Annual Financial Statements

Figures in Rand

	Executive & Council	Municipal Manager	Community Services	Corporate Services	Governance / Internal Audit	Development & Town Planning	Public Works & Basic Services	Finance	Total
49. Segment information (continued)									
Assets									
Current assets									
Inventory	-	-	-	-	-	-	48,201	5,815,392	5,863,593
Receivables from exchange transactions	-	-	-	-	-	-	-	10,493,236	10,493,236
Receivables from non-exchange transactions	-	-	-	-	-	-	-	42,657,169	42,657,169
VAT receivables	-	-	-	-	-	-	-	470,981,143	470,981,143
Cash and cash equivalents	-	-	-	(269,288,270)	-	-	-	403,527,085	134,238,815
Non-current assets									
Investment property	-	-	-	-	-	-	-	25,103,603	25,103,603
Property, plant and equipment	-	20,607,996	(773,048)	36,667,589	1,867,310	287,980	5,219,703,946	92,730,580	5,371,092,353
Other financial assets	-	-	-	-	-	-	-	378,192	378,192
Total segment assets	**-**	**20,607,996**	**(773,048)**	**(232,620,681)**	**1,867,310**	**287,980**	**5,219,752,147**	**1,051,686,400**	**6,060,808,104**
Total assets as per Statement of financial Position									**6,060,808,104**
Liabilities									
Current liabilities									
Payables from exchange transactions	-	-	-	-	-	396,232	-	(1,008,650,061)	(1,008,253,829)
Employee benefit obligation - current	-	-	-	-	-	-	-	(108,199,679)	(108,199,679)
Provisions	-	-	-	-	-	-	-	(38,342,900)	(38,342,900)
Unspent conditional grants and receipts	-	-	-	-	-	(4,275,765)	4,466,313	(190,548)	-
VAT payable	-	-	-	-	-	-	-	(418,197,432)	(418,197,432)
Non-current liabilities									
Employee benefit obligation - Non-current	-	-	-	-	-	-	-	(2,489,493)	(2,489,493)
Total segment liabilities	**-**	**-**	**-**	**-**	**-**	**(3,879,533)**	**4,466,313**	**(1,576,070,113)**	**(1,575,483,333)**
Total liabilities as per Statement of financial Position									**(1,575,483,333)**

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

50. Prior-year adjustments

The municipality restated certain balances and transactions in the 2024 financial year.

All the errors and reclassifications below were restated retrospectively.

Statement of financial position

2024

	Note	As previously reported	Correction of error	Re-classification	Restated
Cash and cash equivalents		134,231,993	6,822	-	134,238,815
VAT receivable		62,921,143	(10,137,432)	-	52,783,711
Receivables from exchange transactions- staff debtors		-	407,565	-	407,565
Receivables from exchange transactions- Prepaid expenses		9,063,295	(377,538)	-	8,685,757
Receivables from exchange transcatins - trade creditors with debit balances		660,758	(620,045)	-	40,713
Receivables from non-exchange transactions - Government grants and subsidies		557,488	42,630,970	-	43,188,458
Inventories - Raw materials and components		14,757,927	(12,713,296)	-	2,044,631
Inventories - VIP toilets		12,626,133	-	(12,626,133)	-
Other financial assets		377,996	196	-	378,192
Property, plant and equipment - Buildings		106,979,996	2,087,768	(2,688,951)	106,378,813
Property, plant and equipment - Other Property, plant and equipment		65,417,189	189,813	-	65,607,002
Property, plant and equipment - Infrastructure		5,515,259,559	(372,138,437)	(4,102,458,512)	1,040,662,610
Property, plant and equipment - Infrastructure (service concession assets)		-	-	4,102,458,512	4,102,458,512
Investment property		22,414,652	-	2,688,951	25,103,603
Payables from exchange transactions - Trade payables		(362,029,077)	76,963,545	-	(285,065,532)
Payables from exchange transactions - Retention fees		(37,452,283)	(2,895,020)	-	(40,347,303)
Payables from exchange transactions - Control and clearing accounts		(81,931)	1,143,054	-	1,061,123
Employee benefits obligation		(106,170,219)	(2,029,459)	-	(108,199,678)
Provisions - Leave		(40,864,951)	2,522,050	-	(38,342,901)
Accumulated surplus		(4,731,928,405)	249,925,873	12,626,133	(4,469,376,399)
		-	-	-	-

Statement of financial performance

2024

	Note	As previously reported	Correction of error	Re-classification	Restated
Government grants and subsidies		1,295,364,564	42,630,969	-	1,337,995,533
Employee related costs		(432,772,390)	2,522,050	-	(430,250,340)
General expenses		(127,727,158)	(687,046)	-	(128,414,204)
Depreciation and amortisation		(201,794,703)	193,766	-	(201,600,937)
Contracted services - VIP Toilets/Sewerage services		-	-	(141,940,596)	(141,940,596)
Contracted services - Repairs and maintenance		(96,432,876)	(30,777,424)	-	(127,210,300)
Contracted services - legal cost		(22,353,529)	(3,095,318)	-	(25,448,847)
Contracted services - Business & Advisory		(40,875,555)	(668)	-	(40,876,223)
VIP Toilets transfers to local communities		(176,952,447)	-	176,952,447	-

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

50. Prior-year adjustments (continued)

50.01 Cash and cash equivalents and opening accumulated surplus

During the prior financial year, there was a difference between the bank reconciliation and the cash book. The error was corrected retrospectively.

Statement of financial position	
Increase in cash and cash equivalents	6,822
Increase in opening accumulated surplus	(6,822)
	-

50.02 VAT, Payables from exchange transactions - trade payables, Infrastructure, contracted services - repairs and maintenance

In the prior financial year orders were recorded as payables which resulted in an overstatement of trade payables, repairs and maintenance and infrastructure, furthermore payroll payments were not cleared and as a result, we corrected the population with the following effects:

Statement of financial position	
Decrease in Payables from exchange transactions - trade payables	74,367,561
Decrease in property, plant and equipment - infrastructure	(10,191,629)
Increase in opening accumulated surplus	(33,811,494)
Decrease in VAT receivable	(11,244,669)
Statement of financial performance	
Decrease in contracted services - repairs and maintenance	(19,119,769)
	-

50.03 Receivables from exchange transactions - staff debtors and payables from exchange transactions - control and clearing accounts

In the previous financial years, staff debtors were recorded as control and clearing accounts.This resulted in staff debtors being understated and control and clearing accounts being understated.

Statement of financial position	
Increase in Receivables from exchange transactions - Staff debtors	407,565
Increase in control and clearing accounts	(407,565)
	-

50.04 Receivables from exchange transactions - prepaid expenses, VAT and IT expenses

During the prior financial year, certain IT expenses and prepayments were duplicated. This resulted in prepayments, IT expenses and VAT being overstated.

Statement of financial performance	
Increase in General expenses - IT expenses	328,294
Statement of financial position	
Decrease in receivables from exchange transactions - prepaid expenses	(377,538)
Decrease in VAT payable	49,244
	-

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

50. Prior-year adjustments (continued)

50.05 Receivables from exchange transactions - trade creditors with debit balances and payables from exchange transactions - trade payables

In the previous financial years, certain payables with debit balances were not disclosed separately in the financial statements. This error resulted in the payables from exchange transactions - trade payables being understated and the receivables from exchange transactions - trade creditors with debit balances being understated.

Statement of financial position	
Decrease in receivables from exchange transactions - trade creditors with debit balances	(620,045)
Decrease in Payables from exchange transactions - trade payables	620,045
	-

50.06 Receivables from non-exchange transactions - government grants and subsidies

During the 2022/23 financial year, unspent funds allocated for infrastructure projects were accounted for on an accrual basis, whereas the MIG-MIS reporting system recognises expenditure on a cash basis. Invoices amounting to R42,630,970 were accrued at year-end but not settled and, therefore, were not reported on MIG-MIS. An application for a rollover was submitted to utilise the unspent funds resulting from the accrued invoices in the 2023/24 financial year but were withheld on payment of equitable share to the municipality. As a result, a receivable was recognised in respect of the related rollover of unspent funds to the 2023/24 financial year.

Statement of financial position	
Increase in receivables from non-exchange transactions - government grants and subsidies	42,630,970
Statement of financial performance	
Increase in government grants and subsidies - Equitable share	(42,630,970)
	-

50.07 Inventories - VIP toilets, contracted services, VIP transfers to local communities and opening accumulated surplus

During the prior financial year, an approach was followed to account for previously recognised VIP toilets - inventory as contracted services - sewerage services siince the District Municipality does not own any toilets as at year end. This was initiated to ensure correct application and alignment to GRAP 12 and 1 and also apply consistency to the treatment of VIP toilets with other Municipalities that provide such services to the rural communities.

Statement of financial position	
Decrease in Inventories - VIP Toilets	(12,626,133)
Increase in opening accumulated surplus	(22,385,718)
Statement of financial performance	
Decrease in VIP transfers to local communities	176,952,447
Increase in contracted services - sewerage services	(141,940,596)
	-

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

50. Prior-year adjustments (continued)

50.08 Inventories and repairs and maintenance

During the previous financial year, the inventory was not adjusted in the inventory module after the count. As a result, inventory (fuel, raw materials and components) was overstated and repairs and maintenance understated.

Statement of financial position	
Decrease in inventory - raw materials and components	(8,942,535)
Statement of financial performance	
Increase in repairs and maintenance	8,942,535
	-

50.09 Other financial assets and general expenses - bank charges

In the previous financial year, certain bank charges relating to other financial statements were not recognised. This error resulted in the other financial assets (Momentum account) being overstated and the bank charges being understated.

Statement of financial position	
Decrease in Other financial assets	(196)
Statement of financial performance	
Increase in General expenses - bank charges	196
	-

50.10 Property, plant and equipment - Infrastructure and contracted services - repairs and maintenance

During the assessment of expenditure for the 2024 financial year, certain repairs were incorrectly recognised as WIP - Infrastructure. This resulted in WIP being overstated and contracted services - repairs and maintenance being understated.

Statement of financial position	
Decrease in Property plant and equipment - Infrastructure	(37,183,697)
Statement of financial performance	
Increase in contracted services - repairs and maintenance	37,183,697
	-

50.11 Investment property and Property, plant and equipment - Buildings

In the previous financial years, some building was reclassified to investment properties to ensure alignment and compliance with GRAP standards.

Statement of financial position	
Decrease in Property, plant and equipment - Buildings	(2,688,951)
Increase in Investment Propety	2,688,951
	-

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

50. Prior-year adjustments (continued)

50.12 Property, plant and equipment and opening accumulated surplus

In the previous financial year, the municipality's financial statements did not agree to the fixed asset register. The error resulted in property, plant and equipment being overstated and opening accumulated surplus being overstated by the same amount.

Statement of financial position	
Decrease in Property, plant and equipment - Infrastructure	(334,954,739)
Increase in Property, plant and equipment - Buildings	32,106,918
Increase in Property, plant and equipment - Other PPE	189,813
Decrease in accumulated surplus	302,658,008
	-

50.13 Retention and opening accumulated surplus

in the 2024 financial year, the correction of retention opening balance was due to retentions of projects being misstated.

Statement of financial position	
Increase in retention	(1,081,825)
Decrease in accumulated surplus	1,081,825
	-

50.14 Payables from exchange transactions - Trade payables and Payables from exchange transactions - control and clearing account

In the current financial year, certain accounts were remapped in order to align the trade payables accounts with the payables ageing. This process resulted in the prior year trade payables and control and clearing accounts being overstated.

Statement of financial position	
Decrease in payables from exchange transactions - control and clearing account	1,143,054
Increase in payables from exchange transactions - trade payables	(1,143,054)
	-

50.15 Employee benefit obligation and opening accumulated surplus

In the previous financial years, the opening balance of the employee benefit obligation in the financial statement did not agree to the actuarial valuation. The balance was understated and the opening accumulated surplus overstated.

Statement of financial position	
Increase in employee benefit obligation	(2,029,459)
Decrease in opening accumulated surplus	2,029,459
	-

Figures in Rand	2025	2024

50. Prior-year adjustments (continued)

50.16 Provisions - leave and leave pay provision

In the previous financial year, the leave pay provision was inaccurately calculated. The provision for leave was overstated and the leave pay expense was also overstated.

Statement of financial position		
Decrease in provisions - leave		2,522,050
Statement of financial performance		
Decrease in employee related cost - leave pay		(2,522,050)
		-

50.17 Contracted services - legal, VAT and payables from exchange transactions - trade payables

In the current year, certain legal costs relating to the 2023/24 financial year were recognised in the 2025 financial year. This resulted in contracted services - legal costs being understated in the 2023/24 financial year, and the related payables from exchange transactions - trade payables being understated.

Statement of financial position		
Decrease in Payables from exchange transactions - Trade payables		(3,118,270)
Increase in VAT receivable		22,952
Statement of financial performance		
Increase in contracted services - legal		3,095,318
		-

50.18 Contracted services - Business & Advisory, VAT and payables from exchange transactions - trade payables

In the previous financial year, certain expenditure relating to SAGE (business & advisory) was recorded in the 2025 financial year instead of the 2024 financial year. The expenditure, VAT and the payables were understated in the 2024 financial year.

Statement of financial position		
Increase in Payables from exchange transactions - Trade payables		(768)
Increase in VAT receivable		100
Statement of financial performance		
Increase in general expenses - electricity		668
		-

50.19 Contracted services - repairs and maintenance, VAT and payables from exchange transactions - trade payables

In the current financial year, Kone Elevators invoices that belonged to the prior year were incorrectly captured in the 2025 financial year. This error resulted in contracted services - repairs and maintenance, VAT and payables from exchange transactions - trade payables being understated in the 2024 financial year.

Statement of financial position		
Increase in Payables from exchange transactions - Trade payables		(124,002)
Increase in VAT receivable		16,174
Statement of financial performance		
Increase in contracted services - repairs and maintenance		107,828
		-