**ALFRED NZO**

DISTRICT MUNICIPALITY

ALFRED NZO DISTRICT MUNICIPALITY
(Registration number DC44)
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 Structure Act (Act 117 of 1998) read with section 155 (1) of the Constitution of the Republic of South Africa (Act 108 of 1996).

**Nature of business and principal activities**

The provision of services (water and sanitation) to communities in a sustainable manner, and to promote a safe and healthy environment.

**Mayoral committee**

V. Mhlelembana - Executive Mayor
N. Mshuqwana - Deputy Executive Mayor
S. Mehlomakulu - Council Speaker
N. Ndabeni - Whip of the Council
S. Sello - MPAC Chairperson
B. Qwayede - MMC: Planning & Economic Development
E.N. Diko - MMC: Monitoring and Evaluation and Acting MMC: Community Development Services
M. Khuzwayo - MMC: Infrastructure Planning and Development
N.R. Nkomo-Khwela - MMC: Corporate Services
N. Nqoko - MMC: Water Services Provisioning & Conservation
S. Mnukwa - MMC: Budget and Treasury Office

**Councillors**

A. Guqaza
B. Sobhayi
E. Voko (Deceased)
F. Mbuyelwa- Bewu
K. Sephuhle
L. Nomaqhiza
M. Gwayi
M. Magadla
M. Ndovela
M. Smith
M. Tuku
N. Bongwana
N. Daniel
N. Langasiki
N. Mantangayi
N. Mantshongo
N. Mpokolo
N. Msokana
N. Ncekana
N. Nomnganga
N. Sobazile
N. Sonyabashe
P. Ndabeni
S. Ntabeni
S. Ntshobane
S. Sophaqa
T. Sheane (Deceased)
W. Leballo
Z. Njomi

## General Information

| | |
|---|---|
| **Municipal Manager** | Z.H. Sikhundla |
| **Acting Chief Financial Officer (CFO)** | S.O. Khuzo |
| **Registered office** | 1400 NTSIZWA STREET<br>EMAXESIBENI<br>4735 |
| **Business address** | 1400 NTSIZWA STREET<br>EMAXESIBENI<br>4735 |
| **Postal address** | PRIVATE BAG X 511<br>EMAXESIBENI<br>4735 |
| **Bankers** | First National Bank |
| **Auditors** | Auditor General SA<br>Registered Auditors |
| **Municipal website** | www.andm.gov.za |

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## Index

The reports and statements set out below comprise the annual financial statements presented to the Municipal Council:



**Abbreviations used:**

| | |
|---|---|
| ANDM | Alfred Nzo District Municipality |
| ANDA | Alfred Nzo Development Agency |
| GRAP | Generally Recognised Accounting Practice |
| COID | Compensation for Occupational Injuries and Diseases |
| IAS | International Accounting Standards |
| IPSAS | International Public Sector Accounting Standards |
| MFMA | Municipal Finance Management Act |
| mSCOA | Municipal Standard Chart of Accounts |
| MIG | Municipal Infrastructure Grant |
| WSIG | Water Services Infrastructure Grant |
| RBIG | Regional Bulk Infrastructure Grant |

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# Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

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

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

The accounting officer would like to bring the following material matters to your attention:

The accounting officer would like to certify that the salaries, allowances and benefits of councillors as disclosed in note 32 to these annual financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution of the Republic of South Africa, 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 the Act.

The annual financial statements set out on page 6 to 88, which have been prepared on the going concern basis, were approved by the on 31 August 2025 and were signed by:

**Accounting Officer**
**Z.H. Sikhundla**

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# 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

Net surplus of the municipality was R 495 905 233 (2024: surplus R 537 525 863)

## 2. Going concern

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

## 3. Subsequent events

The matters or circumstances arising since the end of the financial year are disclosed in note 54.

## 4. Corporate governance

### General

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

## 5. Interest in controlled entities

Details of the municipality's investment in controlled entities are set out in note 13.

The annual financial statements set out on pages 6 to 88, which have been prepared on the going concern basis, were approved by the on 31 August 2025 and were signed by:

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**Accounting Officer**
**Z.H. Sikhundla**

# ALFRED NZO DISTRICT MUNICIPALITY
(Registration number DC44)
Annual Financial Statements for the year ended 30 June 2025

## Statement of Financial Position as at 30 June 2025

| Figures in Rand | Note(s) | 2025 | 2024 Restated* |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Inventories | 4 | 16 203 914 | 16 207 173 |
| Receivables from non-exchange transactions | 5 | 4 343 673 | 4 234 948 |
| Receivables from exchange transactions | 6 | 91 907 985 | 69 210 169 |
| Cash and cash equivalents | 7 | 950 728 512 | 1 376 547 875 |
| VAT receivable | 8 & 9 | 26 203 799 | 16 213 648 |
| VAT input accrual | 9 | 17 955 056 | 26 684 365 |
| | | **1 107 342 939** | **1 509 098 178** |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 10 | 6 123 093 797 | 5 810 766 872 |
| Intangible assets | 11 | 1 252 034 | 4 420 502 |
| Investments in controlled entities | 13 | 100 | 100 |
| Other non-current receivables from exchange transactions | 14 | 8 169 113 | 7 971 013 |
| Heritage assets | 12 | 131 100 | 131 100 |
| Investments | 16 | 505 135 616 | - |
| | | **6 637 781 760** | **5 823 289 587** |
| Non-Current Assets | | 6 637 781 760 | 5 823 289 587 |
| Current Assets | | 1 107 342 939 | 1 509 098 178 |
| **Total Assets** | | **7 745 124 699** | **7 332 387 768** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| VAT output accrual | 8 | 18 704 936 | 17 284 827 |
| Operating lease liability | 17 | 117 745 | 209 989 |
| Payables from exchange transactions | 18 | 184 537 136 | 277 888 554 |
| Employee benefit obligation | 19 | 2 106 000 | 1 183 000 |
| Unspent conditional grants and receipts | 20 | - | 2 185 472 |
| Provisions | 21 | 49 538 924 | 40 676 553 |
| Payables from non-exchange transactions | 22 | 836 597 | 1 157 115 |
| | | **255 841 338** | **340 585 510** |
| **Non-Current Liabilities** | | | |
| Employee benefit obligation | 19 | 14 669 000 | 13 093 000 |
| Non-Current Liabilities | | 14 669 000 | 13 093 000 |
| Current Liabilities | | 255 841 338 | 340 585 510 |
| **Total Liabilities** | | **270 510 338** | **353 678 510** |
| Assets | | 7 745 124 699 | 7 332 387 768 |
| Liabilities | | (270 510 338) | (353 678 510) |
| **Net Assets** | | **7 474 614 491** | **6 978 709 258** |
| Accumulated surplus | | 7 474 614 491 | 6 978 709 258 |
| **Total Net Assets** | | **7 474 614 491** | **6 978 709 258** |

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* See Note 45

# Statement of Financial Performance

| Figures in Rand | Note(s) | 2025 | 2024 Restated* |
|---|---|---|---|
| **Revenue** | | | |
| **Revenue from exchange transactions** | | | |
| Service charges | 24 | 24 403 916 | 23 495 688 |
| Rental of facilities and equipment | 25 | - | 14 020 |
| Agency services | 26 | 255 038 | 232 944 |
| Other income | 27 | 3 224 068 | 2 648 312 |
| Actuarial gains | 19 | 92 713 | 235 574 |
| Interest Income | 28 | 134 837 814 | 131 613 793 |
| **Total revenue from exchange transactions** | | **162 813 549** | **158 240 331** |
| **Revenue from non-exchange transactions** | | | |
| **Transfer revenue** | | | |
| Government grants & subsidies | 29 | 1 302 736 054 | 1 257 588 787 |
| Public contributions and donations | 30 | - | 1 396 610 |
| **Total revenue from non-exchange transactions** | | **1 302 736 054** | **1 258 985 397** |
| | | 162 813 549 | 158 240 331 |
| | | 1 302 736 054 | 1 258 985 397 |
| **Total revenue** | 23 | **1 465 549 603** | **1 417 225 728** |
| **Expenditure** | | | |
| Employee related costs | 31 | (328 827 330) | (312 916 188) |
| Remuneration of Councillors | 32 | (12 446 718) | (12 147 692) |
| Legal Costs | 33 | (34 398 738) | (10 267 324) |
| Depreciation and Amortisation | 34 | (130 516 347) | (120 189 259) |
| Lease rentals on operating lease | 35 | (3 112 332) | (2 896 881) |
| Debt Impairment | 36 | - | (11 217 382) |
| Bulk purchases | 37 | (9 719 420) | (8 211 016) |
| Contracted services | 38 | (191 087 641) | (185 484 567) |
| Transfers and Subsidies | 39 | (21 708 018) | (21 346 166) |
| General Expenses | 40 | (229 626 102) | (192 849 182) |
| **Total expenditure** | | **(961 442 646)** | **(877 525 657)** |
| Other Losses | 47 | (21 217 246) | - |
| Impairment reversal on receivables | 36 | 17 440 941 | - |
| **Other Losses and Gains** | | **(3 776 305)** | **-** |
| Impairment loss on PPE | | (3 198 607) | (710 790) |
| Surplus before taxation | | 497 132 045 | 538 989 281 |
| Taxation | | - | - |
| **Surplus for the year from continuing operations** | | **497 132 045** | **538 989 281** |
| Loss on disposal of assets | | (1 226 812) | (1 463 418) |
| **Surplus for the year** | | **495 905 233** | **537 525 863** |

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* See Note 45

# Statement of Changes in Net Assets for the Period Ended 30 June 2025

| Figures in Rand | Accumulated surplus / deficit | Total net assets |
|---|---|---|
| **Balance at 01 July2023** | **6 438 718 642** | **6 438 718 642** |
| Changes in net assets | | |
| Direct prior year adjustments | 2 464 753 | 2 464 753 |
| Net income (losses) recognised directly in net assets | 2 464 753 | 2 464 753 |
| Surplus for the year | 537 525 863 | 537 525 863 |
| Total recognised income and expenses for the year | 539 990 616 | 539 990 616 |
| Total changes | 539 990 616 | 539 990 616 |
| **Restated* Balance at 01 July 2024** | **6 978 709 258** | **6 978 709 258** |
| Changes in net assets | | |
| Surplus for the year | 495 905 233 | 495 905 233 |
| Total changes | 495 905 233 | 495 905 233 |
| **Balance at 30 June 2025** | **7 474 614 491** | **7 474 614 491** |

Note 45 – Prior year adjustments

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* See Note 45

## Cash Flow Statement

| Figures in Rand | Note(s) | 2025 | 2024 Restated* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Service charges | | 38 846 198 | 23 975 972 |
| Government Grants and Subsidies | | 1 300 550 582 | 1245 667 616 |
| Interest income | | 114 818 139 | 112 079 020 |
| Other Receipts | | 3 417 112 | 2 895 276 |
| | | 1 457 632 031 | 1384 617 884 |
| **Payments** | | | |
| Employee costs | | (334 941 037) | (317 966 947) |
| Suppliers | | (616 104 005) | (284 946 014) |
| Grants and subsidies | | (21 708 018) | (21 302 688) |
| | | (972 753 060) | (624 215 649) |
| Total receipts | | 1 457 632 031 | 1 384 617 884 |
| Total payments | | (972 753 060) | (624 215 649) |
| **Net cash flows from operating activities** | 41 | **484 878 971** | **760 402 235** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 10 | (405 562 726) | (502 022 550) |
| Decrease/(increase) in long term investments | 16 | (505 135 616) | 10 838 087 |
| **Net cash flows from investing activities** | | **(910 698 342)** | **(494 079 739)** |
| **Cash flows from financing activities** | | | |
| **Net increase/(decrease) in cash and cash equivalents** | | **(425 819 370)** | **266 322 496** |
| Cash and cash equivalents at the beginning of the year | | 1 376 547 875 | 1 110 225 379 |
| **Cash and cash equivalents at the end of the year** | 7 | **950 728 505** | **1 376 547 875** |

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* See Note 45

# ALFRED NZO DISTRICT MUNICIPALITY

(Registration number DC44)
Annual Financial Statements for the year ended 30 June 2025

## 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 | 50 530 332 | (6 570 192) | **43 960 140** | 24 403 916 | **(19 556 224)** | A |
| Rendering of services | 826 178 | 1 580 550 | **2 406 728** | - | **(2 406 728)** | A |
| Rental of facilities and equipment | 10 000 | (9 500) | **500** | - | **(500)** | B |
| Agency services | - | - | **-** | 255 038 | **255 038** | C |
| Other income - Reserves | 128 309 685 | 36 215 186 | **164 524 871** | 3 224 068 | **(161 300 803)** | E |
| Other income - Actuarial gains | - | - | **-** | 92 713 | **92 713** | F |
| Interest received on investments | 95 926 832 | 19 826 259 | **115 753 091** | 134 837 814 | **19 084 723** | G |
| **Total revenue from exchange transactions** | **275 603 027** | **51 042 303** | **326 645 330** | **162 813 549** | **(163 831 781)** | |
| **Revenue from non-exchange transactions** | | | | | | |
| **Transfer revenue** | | | | | | |
| Government grants & subsidies | 1 335 530 000 | (34 979 883) | **1 300 550 117** | 1 302 736 054 | **2 185 937** | H |
| 'Total revenue from exchange transactions' | 275 603 027 | 51 042 303 | **326 645 330** | 162 813 549 | **(146 390 840)** | |
| 'Total revenue from non-exchange transactions' | 1 335 530 000 | (34 979 883) | **1300 550 117** | 1302 736 054 | **2 185 937** | |
| **Total revenue** | **1 611 133 027** | **16 062 420** | **1 627 195 447** | **1 465 549 603** | **(144 204 903)** | |
| **Expenditure** | | | | | | |
| Personnel | (370 662 980) | 11 706 660 | **(358 956 320)** | (328 827 330) | **30 128 990** | I |
| Remuneration of Councillors | (12 747 396) | - | **(12 747 396)** | (12 446 718) | **300 678** | J |
| Legal Costs | (33 000 000) | (1 600 000) | **(34 600 000)** | (34 398 738) | **201 262** | K |
| Depreciation and Amortisation | (129 828 659) | (947 674) | **(130 516346)** | (130 516 347) | **221 853** | L |
| Impairment of PPE | - | - | **-** | (3 198 607) | **(3 198 607)** | M |
| Lease rentals on operating lease | (3 115 000) | - | **(3 115 000)** | (3 112 332) | **2 668** | N |
| Debt Impairment | (26 000 000) | 6 500 000 | **(19 500 000)** | - | **19 500 000** | O |
| Bulk purchases | (11 000 000) | - | **(11 000 000)** | (9 719 420) | **1 280 580** | P |
| Contracted Services | (191 096 895) | (28 153 534) | **(219 250 429)** | (191 087 641) | **28 162 788** | Q |
| Transfers and Subsidies | (23 900 000) | (810 000) | **(24 710 000)** | (21 708 018) | **3 001 982** | R |
| General Expenses | (193 687 086) | (39 113 050) | **(232 800 136)** | (229 626 102) | **3 174 034** | S |
| **Total expenditure** | **(995 038 016)** | **(52 417 598)** | **(1 047 195 627)** | **(964 641 253)** | **88 166 371** | |
| | 1 611 133 027 | 16 062 420 | **1627 195 447** | 1 465 549 603 | **(161 645 844)** | |
| | (995 038 016) | (52 417 598) | **(1 047 195 627)** | (964 641 253) | **82 554 374** | |
| **Operating surplus** | **616 095 011** | **(36 355 178)** | **579 999 820** | **500 908 350** | **(79 091 470)** | |
| Other Losses | - | - | **-** | (21 217 246) | **(21 217 246)** | T |
| | 616 095 011 | (36 355 178) | **579 739 833** | 479 691 104 | **(100 048 729)** | |
| Impairment reversal on receivables | - | - | **-** | 17 440 941 | **17 440 941** | D |
| **Surplus** | **616 095 011** | **(36 355 178)** | **579 739 833** | **497 132 045** | **(82 607 788)** | |
| Loss on disposal of assets | - | - | - | (1 226 812) | **(1 226 812)** | U |
| **Net Surplus (Deficit) for the year** | **616 095 011** | **(36 355 178)** | 579 739 833 | **495 905 233** | **(83 834 600)** | |

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# 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 |
|---|---|---|---|---|---|---|

**BUDGET COMMENTS**

A - Service charges and rendering of services

Revenue from service charges was less than what was anticipated due to challenges with water supply. Revenue earned on rendering of services is for tender fees and other revenue items and they are within the budgeted figure.

B - Rental of facilities and equipment:

The conference Centre was not hired out during the year due to its condition. There are plans in place to refurbish it.

C - Agency Services:

The municipality received commission from third-party payments. There was no budget for this item in the period under review.

D - Debt impairment reversal:

There was no budget set aside for this item in the current year.

E - Other Income:

These are contributions from reserves to fund the budget. They are meant to fund non-cash expenditure such as depreciation. The funds have been transferred into an asset replacement reserve, ring fencing them from accumulated surplus. The corresponding expenditure is for sale of tender documents and other revenue sources.

F - Actuarial gain

The actuarial gain was not budgeted for in the period.

G - Interest received on investments:

Interest received is more than what was budgeted for due to the continuous implementation of the investment policy.

H - Government grants and subsidies:

The government grants are within the budgeted figures.



**EXPENDITURE:**

I - Employee-related costs:

The budgeted amount was based on an estimated increase of 6% but the Bargaining Council approved a 4.5% increase for all employees except for Directors. The increment for Directors is still to be approved. There were also vacant posts especially at management level that were either filled towards the end of the financial year and some still remain unfilled.

J - Remuneration of Councillors:

The expenditure for Councillors' salaries is within the budget. Councillors were paid in accordance with the promulgated upper limits applicable to the current financial year.

K - Legal costs:

Legal costs are budgeted under contracted services and seperated for reporting purposes in Annual Financial Statements in order to comply with GRAP. The expenditure which increased in the current year was within the budget.

## 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 |
|---|---|---|---|---|---|---|

L - Depreciation and amortisation:

The depreciation is a non-cash item and it is within the budgeted amount.

- Impairment Loss on PPE:

Impairment loss was not budgeted for.

N - Lease rentals on operating leases

The municipality set aside funds for rental of office space due to lack thereof in satellite offices. The procurement of such was not successful and funds will be utilised in the next financial year.

O - Debtors Impairment

The municipality introduced debt incentive in order to reduce the historical debt, this then resulted in the reversal of debt impairment for the financial year under review.

P - Bulk purchases:

The budgeted amount was due to an estimated increase in the water resource levies that were going to be added in the period but the charges for these were less than what was anticipated.

Q - Contracted services:

Included in the amount of contracted services are repairs and maintenance costs. The variance is due to pit toilets expenditure which was less than anticipated. These were previously budgeted for under WSIG, but were not procured in time and resulted in revision of the project implementation plan during the period under review



R - Transfers and subsidies:

The transfers and subsidies are within the budgeted funds.

S - General expenses:

General expenses are within the budgeted amount.

T. Other losses

These are losses suffered by the municipality due to non-compliances with laws and regulations governing the municipality. They are reported as fruitless expenditure in note 47 of these annual financial statements. They were not budgeted for.

U - Loss on disposal of Assets:

The loss on disposal of assets was not budgeted for as it not anticipated. The disposal was due to damaged assets as well as redundant assets.

### 1. Significant accounting 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.

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.

#### 1.4 Materiality

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

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

#### 1.5 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:

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

**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.

**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)

**Impairment of statutory receivables**

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss. The impairment loss is measured 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, are reduced, either directly or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

In estimating the future cash flows, the 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 municipality 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 are 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.

### 1.6 Property, plant and equipment

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



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

- it is probable that future economic benefits or service potential associated with the item will flow to the 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 comprises its purchase price, including import duties and non-refundable purchase taxes, any 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. 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.

## Accounting Policies

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

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

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

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

| Item | Depreciation method | Average useful life |
|---|---|---|
| Land | Straight-line | Unlimited |
| Buildings | Straight-line | 10 - 40 |
| Plant and machinery | Straight-line | 2 - 20 |
| Furniture and fixtures | Straight-line | 2 - 20 |
| Motor vehicles | Straight-line | 4 - 10 |
| Office equipment | Straight-line | 2 - 20 |
| Specialised vehicles | Straight-line | 5 - 15 |
| Infrastructure - Roads | Straight-line | 5 - 15 |
| Infrastructure - Sanitation | Straight-line | 2 - 85 |
| Infrastructure - Water | Straight-line | 2 - 100 |
| Bins and containers | Straight-line | 5 - 10 |
| Computer equipment | Straight-line | 2 - 10 |
| Emergency equipment | Straight-line | 2 - 15 |
| Park homes | Straight-line | 20 - 40 |



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

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

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

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

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

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

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

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 annual financial statements under note 38.

## Accounting Policies

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

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

### 1.7 Intangible assets

An asset is identifiable if it either:

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

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

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.

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 foreseea ble limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight-line basis over their useful life.

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

| Item | Depreciation method | Average useful life |
| --- | --- | --- |

## Accounting Policies



### 1.7 Intangible assets (continued)

Computer software Straight-line

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).

### 1.8 Heritage assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note 37).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 12).

#### Recognition

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

## Accounting Policies

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### 1.8 Heritage assets (continued)

**Initial measurement**

Heritage assets are measured at cost.

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

**Subsequent measurement**

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

**Impairment**

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

**Transfers**

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

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

**Derecognition**

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

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

### 1.9 Financial instruments

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

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

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

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

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

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

# Accounting Policies

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

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

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

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

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

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

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

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

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

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

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of 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

### 1.9 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.

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

| Class | Category |
|---|---|
| Unlisted Investment | Financial asset measured at amortised cost |
| Investment in fixed deposits | Financial asset measured at amortised cost |
| Long term receivables | Financial asset measured at amortised cost |
| Receivables from exchange transactions | Financial asset measured at amortised cost |
| Receivables from non-exchange transactions | Financial asset measured at amortised cost |
| Cash and cash equivalents | Financial asset measured at amortised cost |
| VAT input accrual | 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 |
|---|---|
| Long term liabilities | Financial liability measured at amortised cost |
| Accounts payables | Financial liability measured at amortised cost |
| VAT output accrual | Financial liability measured at amortised cost |

#### Initial Recognition

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



Initial measurement of financial assets and financial liabilities

#### Classification

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The entity measures a financial asset and financial liability initially at its fair value (if subsequently measured at fair value). The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately.

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

> a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or

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

## Accounting Policies

### 1.9 Financial instruments (continued)

**Subsequent measurement of the 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, are subject to an impairment review.

**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 of 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 unrecognised or impaired or through the amortisation process.

**Impairment and uncollectability 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 assets is impaired.

**Financial assets measured at amortised cost**

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred the amount of the loss is measured as the difference between the assets carrying amount and the present value of the estimated future cashflows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.
If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

**Financial Assets measured at costs**

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 the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

# Accounting Policies

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### 1.9 Financial instruments (continued)

**Derecognition**

Financial Assets

The entity derecognises financial assets using trade date accounting
The entity derecognises financial asset only when:
> the contractual rights to the cash flows from the fianancial asset expire, are settled or waived;
> the entity transfers to another party substantially all the risks and rewrads of ownership of the financial asset; or
> the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transfered control of the asset to another party and the other party has practical ability to sell the asset in its enterety to an un related party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
- Derecognise the asset; and
- recognise separately any rights and obligations created 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 fair values at that date. Any difference between the consideration received and the amounts recognised in the surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognises either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not 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 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, finan cial 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 a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownershipof the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial Liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished i.e - when the obligation specified in the contract is discharged, cancelled, expires or waived. An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguishing or trans ferred 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 Transaction (Taxes and Transfers)

Presentation

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

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

# Accounting Policies

A financial asset and a financial liability are only offset and 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.

### 1.9 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.



### 1.10 Operating leases

**lessor**

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

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

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

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

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

**Operating leases - lessee**

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

### 1.11 Inventories

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

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

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

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

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

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

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

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

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

Water Inventory

Water is regarded as inventory when the Municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the Municipality has incurred purification costs on water obtained from natural resources (rain, rivers, dams, etc). However, water in natural resources, that are filled by rain and that has not yet been treated, and is not under the control of the Municipality and cannot be measured reliably as there is no cost attached to the water, and it is therefore not recognised in the statement of financial Position. Water that is found in its natural state, such as in rivers, dams, streams, lakes, boreholes, and the sea meets the definition of a non-living resource. From time to time an entity may intervene as part of its mandate or service delivery objective. For example, an entity may undertake measures to ensure that the quality of the water in rivers and dams is maintained. This will not result in a change in the water's natural state, and the definition of a non-living resource is therfore still met. The Municipality does not have non-living resources and GRAP 110 is not applicable to it.

The basis of determining the cost of water purchased and not yet sold at the statement of Financial position date comprises all costs of purchases, cost of conversion, and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates. Water is valued by using the weighted average method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

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### Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

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

# Accounting Policies

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

**Designation**

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

**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.

## Accounting Policies

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

**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.

**Discount rate**

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

**Recognition and measurement (individual asset)**

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

An impairment loss is recognised immediately in surplus or deficit.

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.

# Accounting Policies

### 1.12 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.

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# Accounting Policies

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

**Reversal of impairment loss**

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

# Accounting Policies

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

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:

**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, rather than the accounting policy on Impairment of Non-cash-generating assets.

**Identification**

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

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

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

**Value in use**

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

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

## Accounting Policies

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

**Recognition and measurement**

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

**Reversal of an impairment loss**

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

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

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

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

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

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**Redesignation**

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

### 1.14 Employee benefits

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

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

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

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

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

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

# Accounting Policies

### 1.14 Employee benefits (continued)

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

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

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

**Short-term employee benefits**



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

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

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

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

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

**Post-employment benefits**

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

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

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

## Accounting Policies

### 1.14 Employee benefits (continued)

**Multi-employer plans and/or State plans and/or Composite social security programmes**

The entity classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the entity accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the entity account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the entity account for the plan as if it was a defined contribution plan.

**Insured benefits**

Where the entity pays insurance premiums to fund a post-employment benefit plan, the entity treats such a plan as a defined contribution plan unless the entity will have (either directly or indirectly through the plan) a legal or constructive obligation to either:

- pay the employee benefits directly when they fall due; or
- pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior reporting periods.

If the entity retains such a legal or constructive obligation, the entity treats the plan as a defined benefit plan.

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

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

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

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

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

# Accounting Policies

### 1.14 Employee benefits (continued)

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

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

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

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:
- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.



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

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

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

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

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

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

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

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

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

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

# Accounting Policies

### 1.14 Employee benefits (continued)

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

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

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

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

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

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

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

# Accounting Policies

**1.14 Employee benefits (continued)**

**Actuarial assumptions**

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

**Other post retirement obligations**

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

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

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

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

# Accounting Policies

### 1.14 Employee benefits (continued)

**Termination benefits**

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

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

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

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

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

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

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

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### 1.15 Provisions and Contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating surplus (deficit).

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

# Accounting Policies

### 1.15 Provisions and Contingencies (continued)

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 44.

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.

### 1.16 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.

### 1.17 Revenue from exchange transactions

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

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

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

**Measurement**

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

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

**Sale of goods**



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

**Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

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

**Interest, royalties and dividends**

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

# Accounting Policies

### 1.17 Revenue from exchange transactions (continued)

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

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

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established. Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

### 1.18 Revenue from non-exchange transactions

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.

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#### Recognition

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

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

#### Measurement

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

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

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

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

#### Taxes

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

VAT is a value-added tax that is charged at the applicable rate on the supply of goods or services supplied by the vendor in the course or furtherance of an enterprise. The Municipality collects VAT on behalf of the South African Revenue Services (SARS) based on the taxable supplies it provides in meeting its service delivery objectives. The Municipality is a VAT vendor regist ered on the payment basis although the accrual basis of accounting is applied by the Municipality in accordance with the principles of GRAP.

The amount payable to or receivable from SARS is calculated as the VAT charged by the Municipality on taxable supplies (output VAT), reduced by the VAT input the Municipality is charged by service providers on expenditure incurred in the furtherance of the Municipality's service delivery mandate.

VAT receivables and payables are measured in accordance with the accounting policy on statutory receivables and payables.

## Accounting Policies

### 1.19 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.

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

### 1.19 Fruitless and wasteful expenditure

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

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

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

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### 1.20 Irregular expenditure

Irregular expenditure is defined in section 1 of the MFMA as follows:
Irregular expenditure ", in relation to a municipality or municipal entity, means
a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;
b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1988 (Act No.20 of 1998); or
d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirem ent of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure".

In this context 'expenditure' refers to any use of municipal funds that is in contravention of the following legislation:

> Municipal Finance Management Act, Act 56 of 2003, and its regulations
> Municipal Systems Act, Act 32 of 2000, and its regulations
> Public Office Bearers Act, Act 20 of 1998, and its regulations; and
> The municipality's supply chain management policy, and any by-laws giving effect to that policy.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008).

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 and 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.~~

# Accounting Policies

### 1.21 Irregular expenditure (continued)

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

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

Irregular Expenditure is disclosed in terms of Circular 68 from National Treasury.



### 1.22 Segment information

A segment is an activity of an entity:

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

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

**Measurement**

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

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

The geographical information is not available to be able to report segments per area.

### 1.23 Budget information

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

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. The approved budget is prepared on an accrual basis and presented by programmes linked to performance outcome objectives. The approved budget covers the fiscal period from 2024/07/01 to 2025/06/30.

# Accounting Policies

### 1.23 Budget information (continued)

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.

Comparative information is not required.

### 1.24 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 circumstan ces and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

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



Related parties and related party transactions

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Management is regarded as a related party and comprises the Councillors, Executive Mayor, Mayoral Committee members, Municipal Manager, Executive Directors and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

### 1.25 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.

# Accounting Policies

### 1.25 Events after reporting date (continued)

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.

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classiffied as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

### 1.26 Statutory Receivables

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Statutory receivables are receivables that:

(a) arise from legislation, supporting regulations, or similar means; and GRAP 108.

(b) require settlement by another entity in cash or another financial asset.

Initial Recognition

The Municipality shall recognise statutory receivables as follows:

(a) if the transaction is an exchange transaction, using GRAP 9;

(b) if the transaction is a non-exchange transaction, using GRAP 23; or

(c) if the transaction is not within the scope of the Standards of GRAP listed in (a) or (b) 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

Derecognition

An entity shall derecognise a statutory receivable, or a part thereof, when:

(a) the rights to the cash flows from the receivable are settled, expire or are waived;

(b) the entity transfers to another party substantially all of the risks and rewards of ownership of the receivable; or

(c) the entity, 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 shall:
(i) derecognise the receivable; and
(ii) recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred shall be allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. An entity shall consider whether any newly created rights and obligations are within the scope of GRAP 104 or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, in accordance with this paragraph shall be recognised in surplus or deficit in the period of the transfer.

Initial Measurement

The Municipality shall initially measure statutory receivables at their transaction amount. The statutory receivables shall be measured initially in accordance with the applicable Standard of GRAP. The amount determined on initial measurement in accordance with another Standard of GRAP is the same as the transaction amount described in this Standard.

## Accounting Policies

**1.26 Statutory Receivables (continued)**

**Subsequent measurement**
An entity shall measure 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:
(a) interest or other charges that may have accrued on the receivable (where applicable);
(b) impairment losses; and
(c) amounts derecognise

Impairment losses

An entity shall assess 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, an entity shall consider, as a minimum, the following indicators:
(a) Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
(b) It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
(c) A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
(d) 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, an entity shall measure 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, shall be reduced, either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit.

In estimating the future cash flows, an entity 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, an 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 shall be 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 shall be adjusted either directly or by adjusting the allowance account. The adjustment shall 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 shall be recognised in surplus or deficit

VAT Receivable

VAT is levied in accordance with the VAT Act. VAT receivable is recognised using the accrual basis of accounting to the extent that input VAT exceeds output VAT. VAT receivable is initially measured at the rate applicable to the transaction amount and subsequently measured using the cost method, which changes the initial measurement to reflect any interest or other charges that may have accrued on the receivable, impairment or amounts derecognised. The Municipality assesses at each reporting date whether there is any indication that the VAT receivable is impaired. If impairment indicators exist, an impairment loss is measured as the difference between the recoverable amount and the carrying amount. The recoverable amount is calculated as the estimated cash flows from the VAT returns filed with SARS. Where the carrying amount is higher than the recoverable amount, the carrying amount is reduced using a Provision for Bad Debts account to reflect the recoverable amount. The amount of the loss is recognised in the Statement of Financial Performance.

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# Notes to the Annual Financial Statements

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

## 2. New standards and interpretations

### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

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

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2025 or late periods but are not yet effective:

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
|---|---|---|
| GRAP 1 (as revised 2022): Presentation of financial statements Going Concern | Date to be determined | Unlikely there will be material impact |
| GRAP 103 (Amended): Heritage Assets | Date to be determined | Unlikely there will be material impact |
| GRAP 104 (as revised): Financial Instruments | 01 April 2025 | Unlikely there will be material impact |

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## 3. Segment information

**General information**

**Identification of segments**

The municipality is organised and operates in three key functional segments (or business areas). The segments were organised around the type of service delivered and the target market. Management uses these same segments for determining strategic objectives. Segments were aggregated for reporting purposes.

Information reported about these segments is used by management as a basis for evaluating the segments' performances and for making decisions about the allocation of resources. Revenue and expenditure relating to these business are allocated a transactional level. Costs relating to governance and administration of the municipality are not allocated to these business areas.

The three key business areas comprise of:

Community and public safety which includes community and social services, sport and recreation, public safety, health and housing services.

Economic and environmental services which include planning and development, road transport and environmental protection

Trading services which includes energy sources, water management and waste water management

The grouping of these segments is consistent with the functional classifications of government activities which considers the nature of the service, the beneficiaries of such services and the fees charged for the services rendered (if any).

Cashflows are not allocated to segments and reported in the reconciliation to the segment information with other unallocated costs.

# Notes to the Annual Financial Statements

Figures in Rand

## 3. Segment information - 2025 (continued)

| Segment surplus or deficit, assets and liabilities<br>2025 | Community Services | Economic Environmental Affairs | Water and Sanitation | Total Segments |
|---|---|---|---|---|
| **Revenue** | | | | |
| Revenue from non-exchange transactions | - | - | 512 333 000 | 512 333 000 |
| Revenue from exchange transactions | - | - | 24 403 917 | 24 403 917 |
| Other Income | 76 491 | - | 2 264 000 | 2 340 491 |
| **Total segment revenue** | **76 491** | **-** | **539 000 917** | **539 000 917** |
| Interest revenue | | | | |
| **Expenditure** | | | | |
| Salaries and wages | 17 297 467 | 9 936 759 | 114 993 361 | 142 227 587 |
| Depreciation | - | - | 59 835 518 | 59 835 518 |
| Impairment of PPE | - | - | 3 198 607 | 3 198 607 |
| Bulk Purchases | - | - | 9 719 420 | 9 719 420 |
| Contracted Services | 1 212 965 | 5 677 943 | 102 882 480 | 109 773 388 |
| Transfers and Subsidies | - | 20 000 000 | - | 20 000 000 |
| General Expenses | 5 380 022 | 3 399 903 | 33 393 244 | 42 173 169 |
| Other losses and (Gains) | - | - | 21 217 246 | 21 217 246 |
| Loss on disposal of assets | - | - | 1 226 812 | 1 226 812 |
| **Total segment expenditure** | **23 890 454** | **39 014 605** | **346 466 688** | **409 371 747** |
| **Assets** | | | | **Total segment assets** |
| Segment assets | 131 100 | 22 061 384 | 5 996 450 399 | 6 018 642 883 |
| Investments in controlled entities | 100 | - | - | 100 |
| **Total segment assets** | **131 200** | **22 061 384** | **5 996 450 399** | **6 018 642 983** |

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## Notes to the Annual Financial Statements

Figures in Rand



**Segment information - 2025 (continued)**

| Liabilities | | | | Total segment liabilities |
|---|---|---|---|---|
| Segment liabilities | - | - | - | - |

**Reconciliation - Segment surplus or deficit, assets and liabilities 2025**

| | Community Services | Economic Environmental Affairs | Water and Sanitation | Total Segments | Non-Segments & Admin | Total |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Total segment revenue | 76 491 | - | 539 000 917 | 539 077 408 | 809 075 323 | 1 330 711 790 |
| Interest revenue | | | | | | 134 837 813 |
| **Total revenue** | | | | | | **1 465 549 603** |
| **Expenditure** | | | | | | |
| Total segment expenditure | 23 890 454 | 39 014 605 | 346 466 688 | 409 371 747 | 560 272 623 | **969 644 370** |
| **Surplus / (Deficit)** | **(23 813 963)** | **(39 014 605)** | **192 534 229** | **129 705 661** | **248 802 700** | **495 905 233** |

| Assets | | | | Total segment assets | Non-Segments & Admin | Total assets as per Statement of financial Position |
|---|---|---|---|---|---|---|
| Total segment assets | 131 200 | 22 061 384 | 5 996 450 399 | 6 018 642 983 | 1 726 481 716 | 7 745 124 699 |

# Notes to the Annual Financial Statements

Figures in Rand

**Reconciliation - Segment surplus or deficit, assets and liabilities 2025**

| Liabilities | | | | Total segment liabilities | Non-Segments & Admin | Total liabilities as per Statement of financial Position |
|---|---|---|---|---|---|---|
| Segment liabilities | - | - | - | - | 270 510 338 | 270 510 338 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Cashflows** | | | | | | |
| Cashflow from operating activities | - | - | - | - | 484 878 972 | 484 878 972 |
| Cashflow from investing activities | - | - | - | - | (910 698 342) | (910 698 342) |
| | | | | | **(425 819 370)** | **(425 819 370)** |

# Notes to the Annual Financial Statements

Figures in Rand

**Segment information - 2024 (continued)**

| | Community Services | Economic Environmental Affairs | Water and Sanitation | Total Segments |
|---|---|---|---|---|
| **Revenue** | | | | |
| Revenue from exchange transactions | - | - | 23 495 688 | 23 495 688 |
| Revenue from non-exchange transactions | - | - | 508 716 821 | 508 716 821 |
| Other Income | 74 524 | - | 1 543 218 | 1 617 742 |
| **Total segment revenue** | **74 524** | **-** | **533 755 727** | **533 830 251** |
| Interest revenue | | | | |
| **Entity's revenue** | | | | |
| **Expenditure** | | | | |
| Salaries and wages | 16 001 054 | 27 749 206 | 88 880 261 | 132 630 521 |
| Depreciation | - | - | 101 754 973 | 101 754 973 |
| Transfers and subsidies | - | 20 000 000 | - | 20 000 000 |
| General expenses | 2 967 937 | 1 337 985 | 37 072 571 | 41 378 493 |
| Contracted services | 2 935 502 | 30 511 090 | 97 638 596 | 131 085 188 |
| **Total segment expenditure** | **21 904 493** | **79 598 281** | **325 346 401** | **426 849 175** |
| **Total segmental surplus/(deficit)** | **(21 829 969)** | **(79 598 281)** | **208 409 326** | **106 981 076** |
| **Assets** | | | | |
| Segment assets | 131 100 | 6 065 041 | 5 349 996 913 | 5 356 193 054 |
| Long term Investment | - | - | 7 971 013 | 7 971 013 |
| Investments in controlled entities | 100 | - | - | 100 |
| **Total segment assets** | **131 200** | **6 065 041** | **5 357 967 926** | **5 364 164 167** |
| **Liabilities** | | | | |
| Segment liabilities | - | - | - | - |
| **Total liabilities** | - | - | - | - |

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## Notes to the Annual Financial Statements

Figures in Rand

**Reconciliation - Segment surplus or deficit, assets and liabilities 2024**

| | Community Services | Economic Environmental Affairs | Water and Sanitation | Total Segments | Non-Segments & Admin | Total |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| **Total segment revenue** | **74 524** | **-** | **533 755 727** | **533 830 251** | **751 781 684** | **1 285 611 935** |
| Interest revenue | | | | | 131 613 793 | 131 613 793 |
| **Entity's revenue** | | | | | **883 395 477** | **1 417 225 728** |
| **Expenditure** | | | | | | |
| **Total segment expenditure** | **21 904 493** | **79 598 281** | **325 346 401** | **426 849 175** | **452 850 690** | **879 699 865** |
| **Total segmental surplus/(deficit)** | | | | | | **537 525 863** |
| **Assets** | | | | | | |
| **Total segment assets** | **131 200** | **6 065 041** | **5 357 967 926** | **5 364 164 167** | **467 096 533** | **5 831 260 600** |
| **Liabilities** | | | | | | |
| Segment liabilities | - | - | - | - | 353 678 510 | 353 678 510 |
| **Total liabilities** | **-** | **-** | **-** | **-** | **353 678 510** | **353 678 510** |
| **Cashflows** | | | | | | |
| Cashflow from Operating activities | - | - | - | - | 760 402 235 | 760 402 235 |
| Cashflows from Investing activities | - | - | - | - | (494 079 739) | (494 079 739) |
| | **-** | **-** | **-** | **-** | **266 322 496** | **266 322 496** |

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## Notes to the Annual Financial Statements

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

### 4. Inventories

| | | |
|---|---|---|
| Consumables stores | 12 880 577 | 12 395 923 |
| Water | 3 323 337 | 3 811 250 |
| | **16 203 914** | **16 207 173** |

**Water losses in cubic meters**

| | | |
|---|---|---|
| Opening balance | 195 364 | 203 886 |
| System input volume | 5 938 225 | 6 005 500 |
| Authorised consumption | (4 064 686) | (5 052 877) |
| Closing Balance | (202 754) | (195 364) |
| **Water Losses** | **1 866 149** | **961 145** |

| | | |
|---|---|---|
| Cost of producing one cubic litre | R17/m3 | R19/m3 |
| Water losses in Rands | 31 724 516 | 18 261 774 |
| Percentage distribution losses | 31% | 16% |

The water losses are due to leakages, the tampering of meters, faulty meters and illegal water connections.

There is no inventory that was pledged as security.



### 5. Receivables from non-exchange transactions

| | | |
|---|---|---|
| Staff Debtors | 225 467 | 178 736 |
| Other Debtors | 4 118 206 | 4 056 212 |
| | **4 343 673** | **4 234 948** |

| | | |
|---|---|---|
| **Statutoryreceivables included in receivables from non-exchange transactions above are as follows:** | | |
| Grants - Bank Seta | - | 34 800 |

| | | |
|---|---|---|
| **The other debtors abov are made up of the following** | | |
| ANDA | - | 97 902 |
| Utilities World | 198 644 | 176 455 |
| Amadonti Projects | 116 900 | 116 900 |
| Bank Seta grant | - | 34 800 |
| SALGA Levy | 3 802 660 | 3 630 156 |
| | **4 118 204** | **4 056 213** |

| | | |
|---|---|---|
| **Financial asset receivables included in receivables from non-exchange transactions above** | **4 118 204** | **4 021 413** |

**Receivables from non-exchange transactions pledged as security**

There were no receivables from non-exchange that were pledged as security.

### 6. Receivables from Exchange Transactions

| | | |
|---|---|---|
| **Gross balances** | | |
| Water | 169 137 551 | 166 226 367 |
| Sewerage | 29 650 490 | 27 304 800 |
| Other | 1 320 659 | 1 320 658 |
| | **200 108 700** | **194 851 825** |

# Notes to the Annual Financial Statements

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

## 6. Receivables from Exchange Transactions (continued)

| | | |
|---|---|---|
| **Less: Allowance for impairment** | | |
| Water | (85 824 708) | (101 875 280) |
| Sewerage | (21 643 042) | (23 034 041) |
| Other | (732 965) | (732 335) |
| | **(108 200 715)** | **(125 641 656)** |
| **Net balance** | | |
| Water | 83 312 843 | 64 351 087 |
| Sewerage | 8 007 448 | 4 270 759 |
| Other | 587 694 | 588 323 |
| | **91 907 985** | **69 210 169** |
| **Water** | | |
| Current (0 -30 days) | 3 593 224 | 5 072 007 |
| 31 - 60 days | 3 026 015 | 3 391 581 |
| 61 - 90 days | 2 668 811 | 3 272 082 |
| 91 - 120 days | 2 774 179 | 2 619 594 |
| 121 - 365 days | 2 548 083 | 3 025 071 |
| > 365 days | 2 369 241 | 2 895 543 |
| | 152 157 997 | 145 950 487 |
| | **169 137 550** | **166 226 365** |
| **Sewerage** | | |
| Current (0 -30 days) | 1 026 831 | 416 232 |
| 31 - 60 days | 838 731 | 410 240 |
| 61 - 90 days | 403 245 | 444 449 |
| 91 - 120 days | 394 708 | 386 107 |
| 121 - 365 days | 388 833 | 383 508 |
| > 365 days | 385 849 | 379 512 |
| | 26 212 292 | 24 884 752 |
| | **29 650 489** | **27 304 800** |

# Notes to the Annual Financial Statements

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

## 6. Receivables from Exchange Transactions (continued)

| | | |
| --- | --- | --- |
| **Sundries** | | |
| 121 - 365 days | - | - |
| > 365 days | 1 320 658 | 1 320 658 |
| | **1 320 658** | **1 320 658** |

Summary of debtors by customer classification

| | | |
| --- | --- | --- |
| **Consumers** | | |
| 0-30 days | 1 689 922 | 2 189 598 |
| 31- 60 days | 1 361 357 | 1 450 388 |
| 61-90 days | 975 446 | 1 791 086 |
| 91-120 days | 928 530 | 1 119 503 |
| >120 days | 99 698 927 | 97 329 025 |
| Subtotal | 104 654 182 | 103 879 600 |
| Less impairment allowance | (76 128 812) | (91 966 936) |
| | **28 525 370** | **11 912 664** |
| **Industrial / Commercial** | | |
| 0-30 days | 959 410 | 829 635 |
| 31-60 days | 787 455 | 839 692 |
| 61-90 days | 594 232 | 663 376 |
| 91-120 days | 573 753 | 696 495 |
| >120 days | 40 626 801 | 39 012 576 |
| | - | - |
| Subtotal | 43 541 651 | 42 041 774 |
| Less impairment allowance | (8 627 236) | (10 235 742) |
| | **34 914 415** | **31 806 032** |
| **Churches** | | |
| 0-30 days | 23 730 | 449 490 |
| 31-60 days | 33 238 | 47 542 |
| 61-90 days | 24 106 | 70 726 |
| 91-120 days | 26 662 | 36 304 |
| > 120 days | 2 869 274 | 2 952 241 |
| Subtotal | 2 977 010 | 3 556 303 |
| Less impairment allowance | (2 167 287) | (2 841 492) |
| | **809 723** | **714 811** |
| **National and Provincial Governments** | | |
| 0-30 days | 1 946 993 | 2 019 516 |
| 31-60 days | 1 682 696 | 1 464 199 |
| 61-90 days | 1 478 253 | 1 191 343 |
| 91-120 days | 1 639 941 | 1 153 400 |
| >120 days | 40 867 292 | 38 225 031 |
| Subtotal | 47 615 175 | 44 053 489 |
| Less impairment allowance | (20 544 415) | (19 865 150) |
| | **27 070 760** | **24 188 339** |
| **Other- sundries** | | |
| >120 days | 1 320 658 | 1 320 658 |
| Subtotal | 1 320 658 | 1 320 658 |

# Notes to the Annual Financial Statements

| Figures in Rand | 2025 | 2024 |
|---|---|---|
| **6. Receivables from Exchange Transactions (continued)** | | |
| Less impairment allowance | (732 965) | (732 335) |
| | **587 693** | **588 323** |

| **Summary** | | |
|---|---|---|
| Current (0 -30 days) | 4 620 055 | 5 488 239 |
| 31 - 60 days | 3 864 746 | 3 801 822 |
| 61 - 90 days | 3 072 056 | 3 716 531 |
| 91 - 120 days | 3 168 887 | 3 005 701 |
| 121 - 365 days | 185 382 955 | 178 839 532 |
| | **200 108 699** | **194 851 825** |

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| **Reconciliation of allowance for impairment** | | |
|---|---|---|
| Balance at beginning of the year | (125 641 656) | (114 424 273) |
| (Contributions to allowance)/ against the allowance | 17 440 941 | (11 217 383) |
| | **(108 200 715)** | **(125 641 656)** |

**Reconciliation of allowance for impairment of consumer debtors**

The creation and release of allowance for impaired receivables have been included in operating expenses in the statement of financial performance (note 36). The discount is included general expenses in the statement of financial performance (note 40).

The maximum exposure to credit risk at the reporting date is the fair value of each class of debtor mentioned above. The municipality does not hold any collateral as security.

## 7. Cash and cash equivalents

Cash and cash equivalents consists of:

| | | |
|---|---|---|
| Short-term deposits | 950 728 512 | 1 376 547 875 |

**The municipality had the following bank accounts**

| Account number / description | Bank statement balances 30 June 2025 | 30 June 2024 | 30 June 2023 | Cash book balances 30 June 2025 | 30 June 2024 | 30 June 2023 |
|---|---|---|---|---|---|---|
| ANDM Main Call Account | 177 870 133 | 544 988 557 | 394 732 048 | 177 870 133 | 544 988 557 | 394 732 048 |
| DBSA Loan Account | 246 669 573 | 203 490 687 | 162 549 978 | 246 669 573 | 203 490 687 | 162 549 978 |
| Rural Road Asset Account | 8 981 | 2 242 363 | 40 000 | 8 981 | 2 242 383 | 40 000 |
| Regional Bulk Account | 777 | 3 060 800 | 54 951 | 777 | 3 060 800 | 54 951 |
| EPWP Account | 1 512 | 6 968 | 61 518 | 1 512 | 6 968 | 61 518 |
| FMG Account | 6 488 | 114 463 | 5 151 | 6 488 | 114 463 | 5 151 |
| WSIG Account | 114 692 | 722 889 | 309 389 | 114 692 | 722 889 | 309 389 |
| Energy & Efficiency Account | 3 322 | 6 058 | 553 322 | 3 322 | 6 058 | 553 322 |
| Salaries and Wages Account | 429 950 691 | 552 950 938 | 414 918 315 | 429 950 691 | 552 950 938 | 414 918 315 |
| ISDG Account | 24 203 | 1 008 145 | 18 786 | 24 203 | 1 008 145 | 18 786 |
| MIG Account | 404 964 | 1 173 741 | 974 074 | 404 964 | 1 173 743 | 974 074 |
| Nedbank Short-term | - | 11 543 514 | - | - | 11 543 514 | - |
| Money on call Retention | 24 116 080 | 30 163 511 | 32 441 518 | 24 116 080 | 30 163 511 | 32 441 518 |
| ANDM Main Primary | 107 738 755 | 42 235 405 | 135 814 993 | 71 557 096 | 25 075 236 | 103 566 322 |
| **Total** | **986 910 171** | **1 393 708 039** | **1 142 474 043** | **950 728 512** | **1 376 547 892** | **1 110 225 372** |

## Notes to the Annual Financial Statements

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

### 8. VAT receivable

| | | |
|---|---|---|
| VAT Control /Receivable | 26 203 798 | 16 213 648 |
| VAT Input Accrual | 17 955 056 | 26 684 365 |
| | **44 158 854** | **42 898 013** |

VAT input accrual is the VAT that is claimable only when payment is made to a VAT vendor supplier and is a financial asset. VAT is payable or refundable on the payment basis, however it is accounted for on an accrual basis on the annual financial statements.

VAT output accrual

| | | |
|---|---|---|
| Output Accrual | R 18 704 936 | R 17 284 827 |

The Municipality had VAT receivable as a statutory receivable where the framework for the preparation and presentation of financial statements have been applied, for initial recognition. The legal framework for VAT is the Value added Tax Act 89 of 1991.

VAT output accrual is the VAT charged when billing customers and that has not yet been claimed form SARS.

### 9. Statutory receivables in terms of GRAP 108, not classified under GRAP 9 or GRAP 23

The entity had the following statutory receivables where other Standards of GRAP (other than Standards of GRAP on Revenue from Exchange Transactions or Revenue from Non-Exchange Transactions) have been applied, for the initial recognition:

| | | |
|---|---|---|
| Value added tax (VAT) - VAT Receivable / Control<br>VAT receivable (Refer to note 8) | 26 203 798 | 16 213 648 |
| BANK SETA Grant<br>The relating line item where statutory receivables are included is receivables from non-exchange (Refer to note 8 above) | - | 34 800 |
| | **26 203 798** | **16 248 448** |

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## Notes to the Annual Financial Statements

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

### 10. 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 | 465 000 | - | 465 000 | 465 000 | - | 465 000 |
| Buildings | 61 989 561 | (37 166 699) | 24 822 862 | 61 989 560 | (34 177 561) | 27 811 999 |
| Infrastructure | 3 459 538 260 | (1 016 944 324) | 2 442 593 936 | 3 399 751 931 | (904 505 201) | 2 495 246 730 |
| Other property, plant and equipment | 158 546 913 | (79 252 761) | 79 294 152 | 129 811 161 | (65 110 389) | 64 700 775 |
| Assets Under Construction - Water | 3 353 637 043 | - | 3 353 637 043 | 3 010 857 878 | - | 3 010 857 878 |
| Assets Under Construction - Sanitation | 188 054 549 | - | 188 054 549 | 180 995 438 | - | 180 995 438 |
| Assets Under Construction - Buildings | 12 164 876 | - | 12 164 876 | 5 850 349 | - | 5 850 349 |
| Assets Under Construction - Silos | 22 061 384 | - | 22 061 384 | 12 664 685 | - | 12 664 685 |
| Assets Under Construction - Specialised vehicles | - | - | - | 12 174 020 | - | 12 174 020 |
| **Total** | **7 256 419 452** | **(1 133 363 784)** | **6 123 093 797** | **6 814 560 022** | **(1 003 793 151)** | **5 810 766 872** |

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# Notes to the Annual Financial Statements

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

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

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

| | Opening balance | Additions | Disposals | Transfers to / from AUC | Depreciation | Impairment loss | Total |
|---|---|---|---|---|---|---|---|
| Land | 465 000 | - | - | - | - | - | 465 000 |
| Buildings | 27 811 999 | - | - | - | (2 989 138) | - | 24 822 861 |
| Infrastructure | 2 495 246 728 | - | - | 59 786 328 | (109 240 515) | (3 198 609) | 2 442 593 932 |
| Other Property, plant and Equipment | 64 700 776 | 17 068 005 | (1 226 812) | 13 870 542 | (15 118 359) | - | 79 294 152 |
| Assets Under Construction - Water | 3 010 857 878 | 402 565 493 | - | (59 786 328) | - | - | 3 353 637 043 |
| Assets Under Construction - Sanitation | 180 995 438 | 7 059 111 | - | - | - | - | 188 054 549 |
| Assets Under Construction - Building | 5 850 349 | 6 314 527 | - | - | - | - | 12 164 876 |
| Assets Under Construction - Silos | 12 664 685 | 9 396 699 | - | - | - | - | 22 061 384 |
| Assets Under Construction - Specialised Vehicles | 12 174 020 | 1 696 522 | - | (13 870 542) | - | - | - |
| | **5 810 766 872** | **444 712 362** | **(1 226 812)** | **-** | **(126 354 673)** | **(3 198 609)** | **6 123 093 797** |

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## Notes to the Annual Financial Statements

Figures in Rand | 2025 | 2024

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

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

| | Opening balance | Additions | Disposals | Transfers received to/from AUC | Transfers/ Donations | Depreciation | Impairment loss | Total |
|---|---|---|---|---|---|---|---|---|
| Land | 465 000 | - | - | - | - | - | - | 465 000 |
| Buildings | 30 809 342 | - | - | - | - | (2 997 343) | - | 27 811 999 |
| Infrastructure | 2 182 143 532 | - | (42 950) | 415 612 041 | - | (101 754 973) | (710 923) | 2 495 246 727 |
| Other property, plant and equipment | 41 705 057 | 35 226 348 | (1 381 433) | - | 1 396 610 | (12 245 807) | - | 64 700 775 |
| Assets under construction - Water | 3 007 846 074 | 418 623 845 | - | (415 612 041) | - | - | - | 3 010 857 878 |
| Assets Under Construction - Sanitation | 147 875 348 | 33 120 090 | - | - | - | - | - | 180 995 438 |
| Assets Under Construction - Buildings | 4 705 591 | 1 144 758 | - | - | - | - | - | 5 850 349 |
| Assets Under Construction - Silos | 9 877 128 | 2 787 557 | - | - | - | - | - | 12 664 685 |
| Assets Under Construction - Specialised vehicles | - | 12 174 020 | - | - | - | - | - | 12 174 020 |
| | **5 425 427 072** | **503 076 618** | **(1 424 383)** | **-** | **1 396 610** | **(116 998 123)** | **(710 923)** | **5 810 766 872** |

**Pledged as security**

There was no property, plant and equipment pledged as security:

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

Repairs and maintenance expenditure on Property, plant and equipment is disclosed under contracted services note number 38.

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.

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## Notes to the Annual Financial Statements

Figures in Rand 2025 2024

### Property, plant and equipment that are taking a significantly longer period of time to complete than expected

| Project Name | Bid Number | Contract amount | Commencement Date | Contract End Date | Extension Period | Reasons for the delay |
|---|---|---|---|---|---|---|
| Mbizana Ward 10,12&15 | Andm/Idms - PMU 16/17 08/2022 | 54 500 000 | Nov-22 | May-24 | Sept-25 | Additional work |
| Mbizana Ward 10,12&15 | Andm/Idms-PMU /54/18/01/24 | 37 958 132 | Aug-25 | Jun-25 | Aug-25 | Additional work |
| Mbizana Ward 10,12&15 | Andm/Idms-PMU/51/18/24 | 29 649 022 | Jun-24 | May-25 | Jul-25 | Additional work |
| Mbizana Ward 10,12&15 | PMU/Idms-PMU/17/17/08/2022 | 42 652 615 | Nov-22 | May-24 | Mar-25 | Access Denied on some villages for the construction of pipeline and booster pumps |
| Mbizana Ward 10,12&15 | Andm/Idms-PMU/159/17/05/2023 | 37 573 255 | Oct-23 | Sept-24 | Mar-25 | Land acquisitions of proceedings with reservoirs |
| Fobane | Andm/Idms-PMU/93/31/05/2022 | 52 655 146 | Dec-22 | Apr-24 | Nov-24 | Additional scope of work reticulation and stand pipes in Elundini Village |
| Fobane | Andm/Idms-PMU /94/31/05/2022 | 47 304 482 | Oct-22 | Apr-24 | Apr-25 | Changes in pipeline route and additional villages |
| Matatiele Ward 18&122 | Andm/Idms-PMU/162/17/05/2023 | 42 480 600 | Nov-23 | Nov-24 | Apr-25 | Delays in pipe delivery due to incorrect pipe sizes |
| Nyokweni Bomvini | ANDM/Idms-PMU/10/23/31/02/22 | 28 138 181 | Oct-22 | Oct-23 | Jun-25 | Delays caused by additional scope of work |

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## Notes to the Annual Financial Statements

### 11. Intangible assets

| | 2025 | | | 2024 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer Software | 11 614 383 | (10 362 349) | 1 252 034 | 11 614 383 | (7 193 881) | 4 420 502 |

**Reconciliation of intangible assets - 2025**

| | Opening balance | Impairment loss | Total |
|---|---|---|---|
| Computer Software | 4 420 502 | (3 168 468) | 1 252 034 |

**Reconciliation of intangible assets - 2024**

| | Opening balance | Disposals | Amortisation | Total |
|---|---|---|---|---|
| Computer Software | 7 650 833 | (39 140) | (3 191 191) | 4 420 502 |

**Pledged as security**

There were no intangible assets pledged as security:

# Notes to the Annual Financial Statements

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

## 12. Heritage assets

| | 2025 | | | 2024 | | |
| --- | --- | --- | --- | --- | --- | --- |
| | Cost / Valuation | Accumulated impairment losses | Carrying value | Cost / Valuation | Accumulated impairment losses | Carrying value |
| Historical monuments | 131 100 | - | 131 100 | 131 100 | - | 131 100 |

### 12. Heritage assets (continued)

**Reconciliation of heritage assets 2025**

| | Opening balance | Total |
|---|---|---|
| Historical monuments | 131 100 | 131 100 |

**Reconciliation of heritage assets 2024**

| | Opening balance | Total |
|---|---|---|
| Historical monuments | 131 100 | 131 100 |

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# Notes to the Annual Financial Statements

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

## 13. Interests in other entities

**Investments in controlled entities**

| Name | Jurisdiction | Determination of ownership interest | % ownership interest 2025 | % ownership interest 2024 | Carrying amount 2025 | Carrying amount 2024 |
|---|---|---|---|---|---|---|
| Alfred Nzo Development Agency (ANDA) | | | 100% | 100% | 100 | 100 |
| | | | | | **100** | **100** |

## 14. Other non-current receivables from exchange transactions

| | **2025** | **2024** |
|---|---|---|
| Deposits made to Eskom | 8 169 113 | 7 971 013 |

The other non- current receivables consists of consumer deposits made to Eskom for electricity connections.

## 15. Staff loans

| | | |
|---|---|---|
| Staff Loans | 1 041 861 | 1 041 861 |
| | 1 041 861 | 1 041 861 |
| Allowance for doubtful debts | (1 041 861) | (1 041 861) |
| | - | - |

The Municipality previously, in 2002, assisted some municipal officials with advances to buy motor vehicles through provision of car loans. Some of these officials left the municipality and some passed on. These debtors were handed over to lawyers for collection, however means of tracing these employees were fruitless and the recoverability of the said amount is doubtful as a result. The loans have been fully impaired, write off has not yet been approved by Council. The municipality does not offer loans to staff members anymore.

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## 16. Investments

| | | |
|---|---|---|
| **At amortised cost** | | |
| Nedbank investment | 505 135 616 | - |
| **Non-current assets** | | |
| Designated at amortised cost | 505 135 616 | - |
| Non-current assets | 505 135 616 | - |

| **Account** | Cashbook 2025 | Cashbook 2024 | Bank Statement 2025 | Bank statement 2024 |
|---|---|---|---|---|
| Nedbank Account | 505 135 616 | 11 543 514 | 505 135 616 | 11 543 514 |

The investment is a fixed deposit that matures in July 2026 at a fixed interest rate of 8.15% per annum. In March 2025, the prior financial year an investment of R 11 543 514 matured and was then transferred to cash and cash equivalents.

# Notes to the Annual Financial Statements

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

## 17. Operating lease liability (Accrual)

| | | |
|---|---|---|
| Current liabilities | (117 745) | (209 989) |

## 18. Payables from exchange transactions

| | | |
|---|---|---|
| Trade payables | 99 863 285 | 203 759 536 |
| Retentions | 77 153 766 | 66 950 114 |
| Accrued bonus | 6 182 743 | 6 199 851 |
| Other Creditors | 31 608 | 10 145 |
| Salary related creditors | 1 305 734 | 968 908 |
| | **184 537 136** | **277 888 554** |

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## 19. Employee benefit obligations

**Long Service Awards**

| | | |
|---|---|---|
| Non-current liabilities | (14 669 000) | (13 093 000) |
| Current liabilities | (2 106 000) | (1 183 000) |
| | **(16 775 000)** | **(14 276 000)** |

**Long Service Awards**

The municipality operates an unfunded defined plan for all its employees. Under the plan, a long service award is payable after five years of continuous service and every five years thereafter to employees. The provision is an estimate of the long service based on historical staff turnover. No other long service benefits are provided to employees. These provisions are made to enable the municipality to be in a position to fulfill its known legal obligations when they become due and payable.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2025 by Mr C. Weiss Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

At the end of the year 532, (2024: 516) employees were eligible for long service awards

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

| | | |
|---|---|---|
| Opening balance | 14 276 000 | 12 435 000 |
| Current Service Cost | 1 632 000 | 1 476 000 |
| Interest Cost | 1 536 000 | 1 333 000 |
| Benefits paid | (576 286) | (732 426) |
| Actuarial Loss (Gain) | (92 713) | (235 574) |
| | - | - |
| **Present value of the fund at the end of the year** | **16 775 001** | **14 276 000** |

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

| | | |
|---|---|---|
| Current service cost | 1 632 000 | 1 476 000 |
| Interest cost | 1 536 000 | 1 333 000 |
| Actuarial (gains) losses | (92 713) | (235 574) |
| **Net expense recognised in the statement of financial performance** | **3 075 287** | **2 573 426** |

# Notes to the Annual Financial Statements

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

### 19. Employee benefit obligations (continued)

**Calculation of actuarial gains and losses**

| | | |
| --- | --- | --- |
| Actuarial (gains) losses – Obligation | (92 713) | (235 574) |

**Keyassumptions used**

Assumptions used at the reporting date:

| | | |
| --- | --- | --- |
| Discount rates used | 9.80 % | 11.21 % |
| CPI inflation rate | 3.00 % | 6.62 % |
| Net effect discount rate | 4.00 % | 4.57 % |
| Expected retirement age - Females | 62 | 62 |
| Expected retirement age - Males | 62 | 62 |

### 20. Unspent conditional grants and receipts

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

**Unspent conditional grants and receipts**

| | | |
| --- | --- | --- |
| Municipal Infrastructure Grant | - | - |
| Expanded Public Works Programme | - | - |
| Infrastructure Skills Development Grant | - | - |
| Rural Roads Asset Management System Grant | - | 2 185 472 |
| | **-** | **2 185 472** |

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. Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised. During the financial year, the funding from RAMS was not fully spent and a roll over application has been submitted to National Treasury.

See note 29 for reconciliation of grants from National/Provincial Government. These funds are invested in a ring-fenced investment until utilised.

# Notes to the Annual Financial Statements

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

## 21. Provisions

### Reconciliation of Provisions - 2025

| | Opening Balance | Additions | Reversed during the year | Total |
|---|---|---|---|---|
| Litigations | 5 968 825 | 5 394 060 | - | 11 362 885 |
| Leave Provision | 34 707 728 | 4 803 995 | (1 335 684) | 38 176 039 |
| | **40 676 553** | **10 198 055** | **(1 335 684)** | **49 538 924** |

### Reconciliation of Provisions - 2024

| | Opening Balance | Additions | Total |
|---|---|---|---|
| Litigations | 3 903 041 | 2 065 784 | 5 968 825 |
| Leave Provision | 29 057 150 | 5 650 578 | 34 707 728 |
| | **32 960 191** | **7 716 362** | **40 676 553** |

**Litigations Provision**

On the 26th of June 2019, the High court of South Africa, Mthatha, delivered a judgement against the municipality on a case between the municipality and Ms Z. Mgwebi, to this date, the two parties have not finalised the amount of the payout.

The matter between Alfred Nzo District (ANDM) and Umso Construction (Pty) Ltd, where ANDM was instructed to pay Umso Construction (Pty) Ltd, an amount of R 5 390 143 for services rendered.

**Leave Provision**

Staff leave accrue to staff of the municipality on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

## 22. Payables from Non-Exchange Transactions

These are payments made by customers in advance for services.

| | 2025 | 2024 |
|---|---|---|
| Advance payments by customers | 836 597 | 1 157 115 |

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## 23. Revenue

| | 2025 | 2024 |
|---|---|---|
| Service charges | 24 403 916 | 23 495 688 |
| Rental of facilities and equipment | - | 14 020 |
| Agency services | 255 038 | 232 944 |
| Other income | 3 224 068 | 2 648 312 |
| Actuarial Gains | 92 713 | 235 574 |
| Interest income | 134 837 814 | 131 613 793 |
| Government grants & subsidies | 1 302 736 054 | 1 257 588 787 |
| Public contributions and donations | - | 1 396 610 |
| | **1 465 549 603** | **1 417 225 728** |

# Notes to the Annual Financial Statements

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

### 23. Revenue (continued)

**The amount included in revenue arising from exchanges of goods or services are as follows:**

| | | |
|---|---|---|
| Service charges | 24 403 916 | 23 495 688 |
| Rental of facilities and equipment | - | 14 020 |
| Agency services | 255 038 | 232 944 |
| Other income | 3 224 068 | 2 648 312 |
| Actuarial gains | 92 713 | 235 574 |
| Interest income | 134 837 814 | 131 613 793 |
| | **162 813 549** | **158 240 331** |

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

| | | |
|---|---|---|
| **Transfer revenue** | | |
| Government grants & subsidies | 1 302 736 054 | 1 257 588 787 |
| Public contributions and donations | - | 1 396 610 |
| | **1 302 736 054** | **1 258 985 397** |

### 24. Service charges

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| | | |
|---|---|---|
| Sale of water | 20 691 056 | 20 504 079 |
| Sewerage and sanitation charges | 3 712 860 | 2 991 609 |
| | **24 403 916** | **23 495 688** |

### 25. Rental of facilities and equipment

| | | |
|---|---|---|
| **Premises** | | |
| Premises | - | 14 020 |

### 26. Agency services

| | | |
|---|---|---|
| Commission earned | 255 038 | 232 944 |

Agency services is only the admin fee charged to companies, like insurances, medical aids and etc, that are paid by the municipality on behalf of municipal officials. The fee is for the admin work performed in calculating the deductions, processing the deductions and also paying over to the companies or third parties.

### 27. Other income

| | | |
|---|---|---|
| Tender fees | 2 264 000 | 746 752 |
| Staff recoveries | 22 336 | 5 157 |
| Insurance income | 837 031 | 1 257 187 |
| Retentions forfeited | 1 292 | 546 317 |
| Fire levy | 76 491 | 74 523 |
| Clearance fees | 22 918 | 18 376 |
| | **3 224 068** | **2 648 312** |

## Notes to the Annual Financial Statements

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

### 28. Interest Income

**Interest revenue**

| | | |
| --- | --- | --- |
| Investments interest | 114 818 139 | 112 079 020 |
| Debtors fair value adjustment | 20 019 675 | 19 534 773 |
| | **134 837 814** | **131 613 793** |

The debtors fair value adjustment is the interest that is a result of the fair valuation of the accounts receivable as the municipality is not charging interest on overdue accounts. The effective interest method was used.

### 29. Government grants & subsidies



| | | |
| --- | --- | --- |
| **Operating grants** | | |
| Equitable share | 779 701 472 | 734 119 000 |
| Infrastructure skills development grant | 6 500 000 | 5 670 000 |
| Municipal Infrastructure Grant (Operations) | 21 374 500 | - |
| Bank seta | - | 1 996 890 |
| Local government seta | 502 582 | 763 150 |
| Finance management grant | 1 900 000 | 1 950 000 |
| Expanded public works program | 3 603 000 | 5 505 001 |
| Rural roads asset management systems | 1 799 000 | 264 535 |
| | **815 380 554** | **750 268 576** |
| **Capital grants** | | |
| Municipal infrastructure grant | 406 115 500 | 423 226 995 |
| Water services infrastructure grant | 81 240 000 | 77 106 640 |
| Regional bulk infrastructure grant | - | 6 986 576 |
| | **487 355 500** | **507 320 211** |
| | 815 380 554 | 750 268 576 |
| | 487 355 500 | 507 320 211 |
| | **1 302 736 054** | **1 257 588 787** |

**Equitable Share**

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

During the year, the municipality received its drawdowns as per National Treasury indicatives.

**Expanded Public Works Program**

| | | |
| --- | --- | --- |
| Current-year receipts | 3 603 000 | 5 505 001 |
| Conditions met - transferred to revenue | (3 603 000) | (5 505 001) |
| | - | - |

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

During the year the municipality received its drawdowns as per National Treasury indicatives.

# Notes to the Annual Financial Statements

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

## 29. Government grants & subsidies (Continued)

### Finance Management Grant

| | | |
|---|---|---|
| Current-year receipts | 1 900 000 | 1 950 000 |
| Conditions met - transferred to revenue | (1 900 000) | (1 950 000) |
| | - | - |

The Finance Management grant is allocated to municipalities to promote and support reforms in financial management by building capacities in municipalities to implement the Finance Management Act.

During the year, the municipality received its drawdowns as per National Treasury indicatives.

### Municipal Infrastructure Grant

| | | |
|---|---|---|
| Current-year receipts | 427 490 000 | 423 227 000 |
| Conditions met - transferred to revenue | (427 490 000) | (423 227 000) |
| | - | - |

The grant is meant to eradicate basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions servicing poor communities.



During the year the municipality received its drawdowns as per National Treasury indicatives.

### Rural Roads Asset Management Systems Grant

| | | |
|---|---|---|
| Balance unspent at beginning of year | 2 185 465 | - |
| Current-year receipts | 1 799 000 | 2 450 000 |
| Conditions met - transferred to revenue | (1 799 000) | (264 535) |
| Returned to National Treasury | (2 185 465) | - |
| | - | **2 185 465** |

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

During the previous financial year, the municipality could not spend the grant fully. A rollover application was made to National Treasury for the remaining balance but was not approved and returned back to National Treasury

### Infrastructure Skills Development Grant

| | | |
|---|---|---|
| Current-year receipts | 6 500 000 | 5 670 000 |
| Conditions met - transferred to revenue | (6 500 000) | (5 670 000) |
| | - | - |

The grant is used to recruit unemployed graduates into municipalities to be trained and professionally registered as per the requirements of the relevant statutory councils within the built environment.

During the year the municipality received its drawdowns as per National Treasury indicatives.

## Notes to the Annual Financial Statements

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

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

**Regional Bulk Infrastructure Grant**

| | | |
|---|---|---|
| Current-year receipts | - | 6 986 576 |
| Conditions met - transferred to revenue | - | (6 986 576) |
| | - | - |

The grant is used to develop new, refurbish, upgrade and replace ageing bulk water and sanitation infrastructure of regional significance that connects water and sanitation infrastructure that connects water resources to infrastructure serving extensive areas across municipal boundaries or large bulk infrastructure serving numerous communities over a large area within a municipality.

To implement bulk infrastructure with a potential of addressing water conservation and water demand management (WC/WDM) projects to facilitate and contribute to the implementation of local (WC/WDM) projects that will directly impact on bulk infrastructure requirements. The Municipality did not get an RBIG allocation in the current financial year.

**Water Services Infrastructure Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | 14 106 641 |
| Current-year receipts | 81 240 000 | 63 000 000 |
| Conditions met - transferred to revenue | (81 240 000) | (77 106 641) |

The grant is used to facilitate the planning and implementation of various water and sanitation projects to accelerate backlog reduction and enhance the sustainability of services especially in rural municipalities.

During the year the municipality received its drawdowns as per National Treasury indicatives.

### 30. Public contributions and donations

| | | |
|---|---|---|
| Public contributions and donations | - | 1 396 610 |

DBSA made a donation to the Municipality, an asset, water truck. The asset has been disclosed in note number 9 as part of property, plant and equipment. There was no condition attached to this transfer of the asset.

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## Notes to the Annual Financial Statements

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

### 31. Employee related costs

| | | |
|---|---|---|
| Basic Salaries and Scarcity Allowance | 204 179 257 | 192 636 706 |
| Bonus | 14 068 763 | 14 023 358 |
| Medical aid - company contributions | 17 165 353 | 15 977 570 |
| UIF and Group Life | 1 912 642 | 1 997 862 |
| SDL | 2 566 597 | 2 450 915 |
| Leave pay provision charge | 7 169 805 | 9 698 112 |
| Overtime payments | 15 502 723 | 11 890 185 |
| Long-service awards | 3 168 001 | 2 809 000 |
| Car allowance | 21 591 459 | 21 826 790 |
| Housing benefits and allowances | 4 192 451 | 5 177 756 |
| Shift Allowance | 2 881 973 | 2 833 030 |
| Bargaining Council | 79 709 | 75 527 |
| Defined Contribution Plan | 30 412 848 | 28 322 743 |
| Standing Allowance | 3 935 749 | 3 196 634 |
| | **328 827 330** | **312 916 188** |

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**Remuneration of Municipal Manager**

| | | |
|---|---|---|
| Annual Remuneration | 295 073 | 885 221 |
| Travel Allowance | 34 425 | 103 275 |
| Annual Bonuses | 41 748 | 73 768 |
| Contributions to Housing, Medical and Pension Funds | 137 701 | 413 103 |
| Remote Allowance | 19 966 | 75 248 |
| UIF, SDL and Levy | 7 816 | 16 267 |
| Leave pay | 241 532 | - |
| | **778 261** | **1 566 882** |

The contract of the Municipal Manager was terminated on the 31st October 2024.

**Remuneration of Chief Financial Officer**

| | | |
|---|---|---|
| Annual Remuneration | 608 351 | 733 485 |
| Car Allowance | 213 390 | 257 211 |
| Annual Bonuses | 51 003 | 61 204 |
| Contributions to Housing, Medical and Pension Funds | 140 949 | 169 888 |
| Remote Allowance | 40 488 | 65 223 |
| UIF, SDL and Levy | 13 005 | 14 440 |
| Acting Allowance | - | 79 347 |
| Leave pay | 225 981 | - |
| | **1 293 167** | **1 380 798** |

The Chief Financial Officer resigned from her post in April 2025.

**Remuneration of Senior Manager - Corporate Services**

| | | |
|---|---|---|
| Annual Remuneration | - | 25 888 |
| Car Allowance | - | 8 629 |
| Performance Bonuses | - | 59 286 |
| Contributions to UIF, Medical and Pension Funds | - | 6 473 |
| Other | - | 2 558 |
| Other | - | 138 354 |
| | - | **241 188** |

The Director Corporate Services resigned in July 2023 and was appointed as the Director: Strategic Governance from the 13th July 2023.

## Notes to the Annual Financial Statements

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

### 31. Employee related costs (continued)

**Director: Community Services**

| | | |
|---|---|---|
| Annual Remuneration | 734 449 | 436 783 |
| Travel Allowance | 183 612 | - |
| Annual Bonuses | 10 200 | - |
| Contributions to Housing, Medical and Pension Funds | 244 816 | - |
| UIF, SDL and Levy | 11 908 | 5 518 |
| Remote Allowance | 48 963 | 26 695 |
| Acting Allowance - MM post | 28 047 | - |
| | **1 261 995** | **468 996** |

**Director Planning and Economic Development**

| | | |
|---|---|---|
| Annual Remuneration | 734 449 | 383 630 |
| Car Allowance | 183 612 | 24 196 |
| Annual Bonuses | 5 100 | 5 518 |
| Contributions to Housing, Medical and Pension Funds | 244 816 | - |
| Remote Allowance | 48 963 | - |
| UIF, SDL and Levy | 11 809 | - |
| | **1 228 749** | **413 344** |

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## Notes to the Annual Financial Statements

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

### 32. Remuneration of councillors

The Executive Mayor, Deputy Executive Mayor, Council Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council. The Executive Mayor, Deputy Executive Mayor, Council Speaker and the Council whip have use of Council owned vehicles for official duties and they have two full-time bodyguards each. The fair value of these benefits cannot be reliably measured and is therefore not disclosed

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| **Salaries** | | |
|---|---|---|
| Executive Mayor | 1 013 647 | 988 786 |
| Deputy Executive Mayor | 521 246 | 508 560 |
| Council Speaker | 854 144 | 816 373 |
| Council Whip | 762 874 | 746 079 |
| Section 79 committee chairperson | 734 498 | 465 023 |
| Mayoral Committee | 4 722 057 | 5 171 249 |
| Other Councillors | 3 838 252 | 3 451 622 |
| | **12 446 718** | **12 147 692** |

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.

### 33. Litigation expenditure

| | | |
|---|---|---|
| Legal fees | 34 398 738 | 10 267 324 |

The litigation costs increased due to an increase in cases, where the municipality had to be defended and also seek legal opinions.

### 34. Depreciation and Amortisation

| | | |
|---|---|---|
| Property, plant and equipment | 127 347 949 | 116 998 123 |
| Intangible assets | 3 168 398 | 3 191 136 |
| | **130 516 347** | **120 189 259** |

### 35. Lease rentals on operating lease

| | | |
|---|---|---|
| **Equipment** | | |
| Contractual amounts | 2 606 360 | 2 364 139 |
| **Buildings** | | |
| Contractual amounts | 505 972 | 532 742 |
| | **3 112 332** | **2 896 881** |

## Notes to the Annual Financial Statements

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

### 36. Debt impairment/ Impairment reversal on receivables

| | | |
|---|---|---|
| Debt impairment | - | 11 217 382 |
| Impairment reversal on receivables | (17 440 941) | - |
| | **(17 440 941)** | **11 217 382** |

This represents a reversal of previously recognised impairment losses on receivables. During the financial year, the municipal Council approved a debt incentive. This then resulted in a reduction of the historical debt and reduction of the debt impairment from R 125 641 656 in 2023/2024 financial period to R 108 200 715 (2024/2025) in Note 6 for the current financial year. The policy for the provision has not been changed. The Municipality is expecting this trend to continue to the next financial year.

### 37. Bulk purchases

| | | |
|---|---|---|
| Water | 9 719 420 | 8 211 016 |

### 38. Contracted services

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| | | |
|---|---|---|
| **Consultants and Professional Services** | | |
| Business and Advisory | 1 278 693 | 5 627 102 |
| Infrastructure and Planning | 2 852 026 | 9 293 140 |
| **Contractors** | | |
| Repairs and Maintenance | 107 957 044 | 101 158 592 |
| Security services | 40 261 653 | 31 322 315 |
| Agric-Park, EPWP, Pit-toilets and other contractors | 38 738 225 | 38 083 418 |
| Total Consultants and Professional Services | 4 130 719 | 14 920 242 |
| Total Contractors | 186 956 922 | 170 564 325 |
| | **191 087 641** | **185 484 567** |

**Repairs and Maintenance**

| | | |
|---|---|---|
| Land and Buildings | 7 472 104 | 3 532 006 |
| Infrastructure – Water and Sanitation | 89 403 177 | 85 386 723 |
| Other Property, plant and Equipment | 11 081 763 | 12 239 863 |
| | **107 957 044** | **101 158 592** |

### 39. Transfer and subsidies

| | | |
|---|---|---|
| **Other subsidies** | | |
| External Bursaries | 1 108 018 | 946 166 |
| Cash transfers to other municipalities | 600 000 | 400 000 |
| Alfred Nzo Development Agency | 20 000 000 | 20 000 000 |
| | **21 708 018** | **21 346 166** |

The municipality transferred funds to the local municipalities (Matatiele, Umzimvubu, Winnie-Madikizela Mandela and Ntabankulu municipalities) within the district as contributions for IDP roadshows.

# Notes to the Annual Financial Statements

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

### 40. General expenses

| | | |
|---|---|---|
| Audit Committee | 832 947 | 1 019 810 |
| Publicity and Marketing Costs | 4 259 394 | 2 635 417 |
| Audit Fees | 8 291 829 | 6 059 369 |
| Bank charges | 911 851 | 819 755 |
| Cleaning | 294 920 | 474 821 |
| IT expenses | 1 969 000 | 3 451 478 |
| Consumables | 28 273 802 | 22 479 681 |
| Debtors write-off | 9 760 412 | - |
| Insurance | 3 016 048 | 2 114 344 |
| Licence fees | 17 612 852 | 16 568 194 |
| Fuel and Oil | 44 460 126 | 33 620 118 |
| Printing and Stationery | 4 298 237 | 3 683 247 |
| Protective clothing | 1 741 923 | 2 036 366 |
| Subscriptions and Membership fees | 3 896 888 | 3 662 892 |
| Postage and Telecommunication costs | 11 636 319 | 10 378 800 |
| Travelling Costs | 22 992 728 | 20 726 389 |
| Rates and Electricity | 37 432 962 | 37 439 385 |
| Catering | 2 282 889 | 2 855 430 |
| Conferences and Seminars | 1 886 774 | 1 297 658 |
| Indigent Support | 1 839 046 | 2 555 487 |
| Accommodation | 9 234 563 | 8 259 304 |
| Other expenses | 12 700 592 | 10 711 237 |
| | **229 626 102** | **192 849 182** |

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### 41. Cash generated from operations

| | | |
|---|---|---|
| Surplus | 495 905 233 | 537 525 863 |
| **Adjustments for:** | | |
| Depreciation and amortisation | 130 516 346 | 120 189 259 |
| Loss on sale of assets and liabilities | 1 226 812 | 1 463 418 |
| Actuarial gains | (92 713) | (235 574) |
| Asset donation received | - | (1 396 610) |
| Impairment deficit | 3 198 607 | 710 790 |
| Impairment reversal on receivables | (17 440 941) | 11 217 382 |
| Movements in operating lease assets and accruals | (92 244) | (16 035) |
| Employee benefits obligations | 2 591 713 | 2 076 574 |
| Movement in leave provision | 8 862 371 | 7 716 362 |
| **Changes in working capital:** | | |
| Inventories | 3 259 | (1 379 397) |
| Receivables from exchange transactions | (5 256 875) | (19 054 489) |
| Other receivables from non-exchange transactions | (108 725) | (3 764 229) |
| Other Receivables | (198 100) | - |
| Payables from exchange transactions | (130 062 946) | 115 635 906 |
| VAT | (1 666 837) | 2 571 921 |
| Unspent conditional grants and receipts | (2 185 472) | (11 921 171) |
| Changes in payables from non-exchange transactions | (320 518) | (937 735) |
| | **484 878 971** | **760 402 235** |

### 42. Financial instruments disclosure

**Categories of financial instruments**

**2025**

**Financial assets**

## Notes to the Annual Financial Statements

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

### 42. Financial instruments disclosure (continued)

| | At Amortised Cost | At cost | Total |
|---|---|---|---|
| Unlisted Investments | - | 100 | 100 |
| Trade and other receivables from exchange transactions | 91 907 985 | - | 91 907 985 |
| Receivables from non-exchange transactions | 4 118 406 | - | 4 118 206 |
| Cash and cash equivalents | 950 728 512 | - | 950 728 512 |
| Vat Input accrual | 17 955 056 | - | 17 955 056 |
| Other non-current receivables from exchange transactions | 8 169 113 | - | 8 169 113 |
| Non-current Investments | 505 135 616 | - | 505 135 616 |
| | **1 578 014 488** | **100** | **1 578 014 488** |

**Financial liabilities**

| | At amortised cost | Total |
|---|---|---|
| Trade payables from exchange transactions | 183 231 402 | 183 231 402 |
| Payables from non-exchange transactions | 836 597 | 836 597 |
| VAT output accrual | 18 704 936 | 18 704 936 |
| Operating lease liability | 117 745 | 117 745 |
| | **202 890 680** | **202 890 680** |

**2024**



**Financial assets**

| | At amortised cost | At cost | Total |
|---|---|---|---|
| Unlisted Investments | - | 100 | 100 |
| Trade and other receivables from exchange transactions | 69 210 169 | - | 69 210 169 |
| Non-current receivables from exchange | 7 971 013 | - | 7 971 013 |
| VAT input accrual | 26 684 365 | - | 26 684 365 |
| Other receivables from non-exchange transactions | 4 021 412 | - | 4 021 412 |
| Cash and cash equivalents | 1 376 547 875 | - | 1 376 547 875 |
| | **1 484 434 834** | **100** | **1 484 434 934** |

**Financial liabilities**

| | At amortised cost | Total |
|---|---|---|
| Trade and other payables from exchange transactions | 276 919 646 | 276 919 646 |
| Payables from non-exchange transactions | 1 157 115 | 1 157 115 |
| Operating lease liability | 209 989 | 209 989 |
| VAT output accrual | 17 284 827 | 17 284 827 |
| | **295 571 577** | **295 571 577** |

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

### 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**

Liquidity risks 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.

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

| 30 June 2025 | Payables within 1 year | Payable in 2 to 5 years | Payables after 5 years | Total |
|---|---|---|---|---|
| Payables from exchange transactions | 183 231 402 | 14 669 000 | - | 197 900 402 |

| 30 June 2024 | Payables within 1 year | Payable in 2 to 5 years | Payables after 5 years | Total |
|---|---|---|---|---|
| Payables from exchange transactions | 276 919 646 | 13 093 000 | - | 290 012 646 |

**Credit risk**

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

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

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



| Financial instrument | 2025 | 2024 |
|---|---|---|
| Receivables from exchange transactions | 91 907 985 | 69 210 169 |
| Receivables from non-exchange | 4 118 206 | 4 234 948 |
| VAT Input Accrual | 17 955 056 | 26 684 365 |
| Non-current Investments | 505 135 616 | - |
| Cash and cash equivalents | 950 728 512 | 1 376 547 875 |

The municipality holds investments at reputable banks that are listed on the JSE. The credit quality is regularly monitored through required SENS releases by various banks. The exposure risk on these deposits is considered to be low.

There are no restrictions on the cash deposits held and no cash were pledged as security. No collateral is held for any cash and cash equivalents.

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

**Risk management (Continued)**

**Receivables**

Receivables comprise of a large number of users, dispersed across different sectors and geographical areas of the district. Credit risk pertaining to receivables are considered to be moderate due to the diversified nature of receivables and immaterial nature of individual balances. In the case of consumer debtors, the municipality effectively has the right to terminate services to customers, but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, council endeavors to collect such accounts by "levying of penalty charge", applicable in terms of Council's Credit Control and Debt Collection Policy.

Receivables disclosed after taking into account the provision for impairment raised against each class of receivable.

Receivables are payable within 30 days. All receivables outstanding for more than 30 days are considered to be past due. Refer to note 6 for more information regarding the provision for Impairment raised against each service type as well as receivables considered to be past due.

No receivables were pledged as security for liabilities and no collateral is held from any consumers (other than consumer deposits).

The following service receivables are considered past due (more than 30 days outstanding)



| | 2025 | 2024 |
|---|---|---|
| Water | 165 544 326 | 161 154 359 |
| Sewer | 28 623 658 | 26 888 569 |
| Sundries | 1 320 658 | 1 320 658 |
| | **195 488 642** | **189 363 586** |

Long Term Receivables are disclosed after taking into account any provision for impairment raised against the outstanding balance. Each outstanding balance is individually assessed for impairment.

**Market risk - Interest rate risk**

Interest Rate Risk is the risk that the fair value of future cashflows associated with a financial instrument will fluctuate in amount as a result of market interest changes. Financial assets and liabilities that are sensitive to Interest Rate Risk are cash equivalents, Investments, and loan payables. The municipality is not exposed to interest rate risk on these financial instruments as the rates applicable are fixed interest rates.

Potential concentrations of interest rate risk consist mainly of fixed deposits investments, long term debtors, other debtors, short term Investments deposits and bank and cash balances.

The municipality limits its counterpart exposures from its money market investments operations by only dealing with well-established financial institutions of high credit standing. The credit exposures to any single counterpart is managed by setting percentage exposure limits, which are included in the municipality's investment policy. These limits are reviewed periodically by the Chief Financial Officer and authorised by the Council.

The following balances are exposed to interest rate fluctuations:

| | 2025 | 2024 |
|---|---|---|
| Cash and cash equivalents | 950 728 512 | 1 376 547 875 |
| Non-current Investments | 505 135 616 | - |
| **Net Balance Exposed** | **1 455 864 128** | **1 376 547 875** |

| **Potential effect of changes in Interest rates on surplus and deficit to the year/period** | 2025 | 2024 |
|---|---|---|
| | 14 558 641 | 13 765 478 |
| | (14 558 641) | (13 765 478) |
| | - | - |

# Notes to the Annual Financial Statements

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

**Risk management (Continued)**

At 30 June 2025, if the weighted average interest rate had been 100 points basis higher, with all other variables held constant, the fair value impact on the financial performance would have been R 14 558 567 with the opposite effect if the interest rate had been 100 points basis lower. The sensitivity analysis would be performed by dividing the total Investment Interest earned for the year by the average Interest rate earned to give the effect of a one percent movement in Interest rates.

**Market risk - Currency rate risk**

The Municipality is not exposed to currency rate changes.

**Financial Liabilities**

Changes in the interest rates as at 30 June 2025 would have had no impact on the statement of financial performance, as the municipality has no borrowings.

**Price risk**

Price Risk (Market Risk)

Other price risk is the risk that the fair value or future cashflows 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

The municipality is not exposed to any other price risk.

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## 43. Commitments

**Authorised capital expenditure**

| | 2025 | 2024 |
|---|---|---|
| **Already contracted for but not provided for** | | |
| • Property, plant and equipment | 969 889 291 | 883 524 218 |
| **Total capital commitments** | | |
| Already contracted for but not provided for | 969 889 291 | 883 524 218 |
| **Total commitments** | | |
| Authorised capital expenditure | 969 889 291 | 883 524 218 |

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, government grants, and internally generated funds.

**Operating leases - as lessee (Buildings)**

| | 2025 | 2024 |
|---|---|---|
| **Minimum lease payments due** | | |
| - within one year | 435 880 | 598 216 |
| - in second to fifth year inclusive | 85 650 | 521 530 |
| | **521 530** | **1 119 746** |

Operating lease payments represent rentals payable by the municipality for office properties in Matatiel and Cederville.

**Rental expenses relating to operating leases**

| | | |
|---|---|---|
| Minimum lease payments | - | - |

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

### 44. Contingencies

| Contingent Liabilities | 2025 | 2024 |
|---|---|---|
| 1) Zolani Gulwa vs ANDM. In 2010 Zolani Gulwa issued summons against the municipality for breach of contract of employment alleging that the municipality failed to pay him in terms of the contract. The court found in favour of the Municipality. | 566 189 | 566 189 |
| 2) Moko vs ANDM. Letter of demand received in lieu of specialist consultancy services rendered. The Municipality is defending the matter. | 375 927 | 375 927 |
| 3) Natal Joint Municipal Pension Fund vs ANDM: Claim for payment of outstanding fund contribution | 147 937 | 147 937 |
| 4) Sikhokele Maphukatha vs ANDM: Claim for repudiation of employment contract | 6 600 000 | 6 600 000 |
| 5) Yongama Gxumisa vs ANDM – Claim for repudiation of employment agreement. | 5 000 000 | 5 000 000 |
| 6) Umso Construction vs ANDM – Claim for service rendered | - | 5 390 148 |
| 6) Ntabankulu Regional Bulk Consultants vs ANDM- Alleged breach of contract | 1 281 470 | 1 281 470 |
| 7) Sokhani Development vs ANDM- Claim for services rendered (Settled) | - | 19 505 211 |
| 8) Ntabankulu Regional Bulk Consultants vs ANDM- Alleged breach of contract | 2 215 549 | 2 215 549 |
| 9) Royal Haskoning vs ANDM - Alleged breach of contract | 1 259 500 | 1 259 500 |
| 10) Emil Volscheck vs ANDM Accident claim | - | 194 795 |
| 11) Kaka vs ANDM - Ex employee's claim for damages against the Municipality | 2 100 000 | 2 100 000 |
| 12) Steady Motor Trust vs ANDM - Claim for damages | - | 300 000 |
| 13) Waterskills vs ANDM - Claim for services rendered | 3 919 661 | 3 919 661 |
| 14) Ndamase Andisiwe vs ANDM – Non-payment of overtime and travel claims | 4 500 000 | - |
| 15) Mndingazwe vs ANDM - Claim for damages | 6 445 148 | - |
| | **34 411 381** | **48 856 387** |

**Other court cases**

The municipality has other court cases that were not finalised during the financial year. The municipality is defending the matters.

1. EFF vs ANDM - Case of review of Municipal Council by-laws.
2. Tekoa Engineering vs ANDM - Review application of the tender process.
3. Nick JV (Pty) Ltd vs ANDM - Payment dispute between the two parties.
4. CO Valves (Pty) Ltd vs ANDM - Payment dispute between the two parties.



**The following are tender dispute/objections court cases.**

1. Real Sec (Pty) Ltd
2. Ibala Consulting (Pty) Ltd
3. Mabona Civils (Pty) Ltd
4. Shula Construction (Pty) Ltd

**The Municipality was also involved in the following labour dispute cases**

1. Zamile Sikhundla vs ANDM
2. Linda Ndoko vs ANDM
3. Simvumile Mambafula vs ANDM
4. Luthando Ndamase vs ANDM

## Notes to the Annual Financial Statements

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|---|---|---|

**Court cases where the Municipalityis also cited**

1. The municipality has been cited as a third respondent in case involving ANDA and FBBI Solutions where the complainant is suing ANDA for termination of contract.
2. The municipality has also been cited in a case involving ANDA and Mr Madikizela where the complainant is suing ANDA for termination of employment.

**Contingent assets**

| | 2025 | 2024 |
|---|---|---|
| 1. Deedscon Consulting vs ANDM - Claim for services rendered | 4 699 196 | 4 699 196 |
| 2. Lihlenathi Base JV vs ANDM – The municipality will be pursuing a case to recover penalties charged to the contractor for delays in completing the Kwa-Bhaca water project | 13 980 000 | - |

### 45. Prior-year adjustments

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

**Statement of financial position as at 30 June 2024**

| | Note | As previously reported | Correction of error | Restated |
|---|---|---|---|---|
| Inventories | | 16 207 173 | - | 16 207 173 |
| Receivables from non-exchange transactions | | 4 296 931 | (61 983) | 4 234 948 |
| Receivables from Exchange transactions | | 69 210 169 | - | 69 210 169 |
| Cash and cash equivalent | | 1 376 547 875 | - | 1 376 547 875 |
| VAT receivable | | 23 470 972 | 3 213 393 | 26 684 365 |
| VAT input accrual | | 16 683 170 | (469 522) | 16 213 648 |
| Property, plant and Equipment | | 5 813 816 651 | (3 042 779) | 5810766872 |
| Intangible assets | | 4 420 380 | 122 | 4 420 502 |
| Investments in controlled entities | | 100 | - | 100 |
| Other non-current receivables from exchange transactions | | 7 971 013 | - | 7 971 013 |
| Heritage Assets | | 131 100 | - | 131 100 |
| VAT output accrual | | (17 284 827) | - | (17 284 827) |
| Operating lease liability | | (209 989) | - | (209 989) |
| Payables from exchange transactions | | (278 030 500) | 141 946 | (277 888 554) |
| Employee benefit obligation | | (1 183 000) | - | (1 183 000) |
| Unspent conditional grant and receipts | | (2 185 472) | - | (2 185 472) |
| Provisions | | (40 676 553) | - | (40 676 553) |
| Payables from non-exchange transactions | | (1 157 115) | - | (1 157 115) |
| Employee benefit obligation | | (13 093 000) | - | (13 093 000) |
| Accumulated Surplus | | (6 978 935 078) | 225 820 | (6 978 709 258) |
| | | - | - | - |

### 45. Prior-year adjustments (continued)

**Statement of financial performance for the period ended 30 June 2024**



| | Note | As previously reported | Correction of error | Restated |
|---|---|---|---|---|
| Service charges | | 23 495 688 | - | 23 495 688 |
| Rental of facilities and equipment | | 14 020 | - | 14 020 |
| Agency services | | 232 944 | - | 232 944 |
| Other income | | 2 648 312 | - | 2 648 312 |
| Actuarial gains | | 235 574 | - | 235 574 |
| Interest income | | 131 613 793 | - | 131 613 793 |
| Government grants and subsidies | | 1 257 588 787 | - | 1 257 588 787 |
| Public contributions and donations | | 1 396 610 | - | 1 396 610 |
| Employee related costs | | (312 693 848) | (222 340) | (312 916 188) |
| Remuneration of Councilors | | (11 811 323) | (336 369) | (12 147 692) |
| Legal Costs | | (10 695 649) | 428 325 | (10 267 324) |
| Depreciation and Amortisation | | (120 190 809) | 1 550 | (120 189 259) |
| Impairment of Property, Plant and Equipment | | (710 790) | - | (710 790) |
| Lease rentals on operating lease | | (2 896 881) | - | (2 896 881) |
| Debt Impairment | | (11 217 382) | - | (11 217 382) |
| Bulk purchases | | (8 321 461) | 110 445 | (8 211 016) |
| Contracted services | | (185 522 800) | 38 233 | (185 484 567) |
| Transfers and Subsidies | | (21 302 688) | (43 478) | (21 346 166) |
| General Expenses | | (190 182 243) | (2 666 939) | (192 849 182) |
| Loss on disposal of Assets | | (1 463 418) | - | (1 463 418) |
| **Surplus for the year** | | **540 216 436** | **(2 690 573)** | **537 525 863** |

**Prior period error / adjustments**

The following adjustments were made to the prior year annual financial statements.

These are the adjustments processed. Employees and Councilors' salaries were adjusted due to back pays for the 2024 financial year that were approved after issue of the financial statements. The adjustment on salaries amounts to R 222 340 and R 336 369 respectively.

Legal costs were adjusted by R 428 325 as a result of invoices submitted after issue of annual financial statements with claims of work performed in the 2023/2024 financial year. Depreciation and general expenses, were adjusted by R 1 550 and R 2 176 525 respectively. Bulk purchases were adjusted by R 110 445 as a result adjustments made by DWS. Contracted services were also adjusted by R 38 233. An adjustment amounting to R 43 478 was made on transfers and subsidies due to an amount that was not invoiced by ANDA in the previous financial year. General expenses were adjusted with an amount of R 2 666 939 due to correction of the rates and electricity costs. These adjustments affected the account payables R 2 327 742.

Property plant and equipment had to be adjusted with an amount of R 1 223 673 to correct different errors within infrastructure and other PPE.

Commitments were adjusted by R 2 875 081, to account correctly for retentions. An amount of R 4 699 196 was reclassified from contingent liabilities to contingent assets, the Municipality is claiming against the indemnity insurance of the consultants as a result of damages suffered by Municipality through the actions of the consultant. The Sokhani case was also adjusted due to the actual claim made in the current financial year to R 19 505 211. Credit notes processed directly to the opening accumulated surplus as a result of errors in the prior financial years amounted to R 2 464 753

Note 27 - Other income items previously named sundries and other income were renamed to Tender sales and staff recoveries, respectively.

Segment reporting as well as the cash flow statement was also adjusted as a result of the above changes to the prior year figures.

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

## 46. Unauthorised, Irregular and Fruitless and Wasteful Expenditure

| | | |
|---|---|---|
| Irregular expenditure | 27 074 736 | 68 338 207 |
| Fruitless and wasteful expenditure | 44 434 363 | 1 177 132 |
| **Closing balance** | **71 509 099** | **69 515 339** |

## 47. Fruitless and wasteful expenditure

| | | |
|---|---|---|
| Opening balance as previously reported | 1 177 132 | 18 250 096 |
| Add: Fruitless and wasteful expenditure identified - current | 43 257 231 | - |
| Less: Amount written off - prior period | - | (17 072 964) |
| **Closing balance** | **44 434 363** | **1 177 132** |

The opening balance of R 1 177 132 for fruitless and wasteful expenditure reported in the previous financial year was still under investigation on the 30th June 2025 but was written off after year end. Fruitless and wasteful expenditure reported and incurred in the current financial year, was referred by the Council to MPAC for investigation. The municipality did not receive any value, or asset or service for the disclosed amounts. The investigations are still underway. Fruitless and wasteful expenditure disclosed above includes other losses disclosed in the statement of financial performance, (Note, the amount is inclusive of VAT).

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### 48. Irregular expenditure

| | 2025 | 2024 |
|---|---|---|
| Opening balance as previously reported | 68 338 207 | 214 802 304 |
| Add: Irregular expenditure - current | 27 074 736 | 6 388 977 |
| Less: Amount written off - prior period | (68 338 207) | (152 853 074) |
| **Closing balance** | **27 074 736** | **68 338 207** |

**Cases under investigation**

Expenditure on cases related to non-compliance with procurement processes requirements amounted to R 27 074 736 which is still under investigation. Irregular expenditure presented is inclusive of VAT.

| | 2025 | 2024 |
|---|---|---|
| Municipal Supply Chain Management Policies or By-laws and Municipal Finance Management Act | 27 074 736 | 68 338 207 |

**Amount written-off**

After the council committee investigations, council adopted the council committee recommendation to write-off an amount of R 68 338 207 from irregular expenditure reported and incurred in the previous financial years. The balance on irregular expenditure is still under investigation.

**Criminal proceedings**

The criminal case levelled against some of the municipal officials and a service provider for alleged contravention of the SCM regulations on procurement of municipal fleet, trucks in 2014, is still continuing.

**Criminal investigations**

On the 8th November 2024, the president of South Africa issued proclamation 218 of 2024 to the Special Investigation unit and special tribunals for an investigation of allegations made in respect of the matters of Alfred Nzo District municipality. The investigation includes any alleged: -

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a) serious maladministration in connection with the affairs of the Municipality

b) improper or unlawful conduct by employees of the Municipality;

c) unlawful appropriation or expenditure of public money or property;

d) unlawful, irregular or unapproved acquisitive act, transaction, measure or practice having a bearing upon State property;

e) intentional or negligent loss of public money or damage to public property;

f) offence referred to in Parts 1 to 4, section 17, 20, or 21 (in so far as it relates to the aforementioned offences) of chapter 2 of the Prevention and Combating of Corrupt Activities Act, 2004 (Act No. 12 of 2004), and which offences were committed in connection with the affairs of the Municipality; or

g) Unlawful or improper conduct by any person, which has caused or may cause serious harm to the interests of the public or any category thereof, which took place between 01 January 2015 and the date of publication of the proclamation, but is relevant to, connected with, incidental or ancillary to the matters mentioned in the Schedule.

The investigation by the SIU started in January 2025 and on date of issue of the annual financial statements, it was still in progress.

# Notes to the Annual Financial Statements

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|---|---|---|

### 49. Deviation from supply chain Management regulations

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

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

**SCM processes could not be followed**

| | 2025 | 2024 |
|---|---|---|
| Impractical to follow SCM procedures, urgent matters (Deviations for legal services were rate based) | 8 581 330 | 7 853 190 |

### 50. Awards to close family members of persons in the service of the state

Regulation 45. The notes to the annual financial statements of a municipality or municipal entity must disclose particulars of any award of more than R2 000 to a person who is a spouse, child or parent of a person in the service of the state, or has been in the service of the state in the previous 12 months.

The following awards were made to persons whose close family members are in the employ of the state.

| Name of the Service Provider and Type of service | Person with the Type of relationship | Type of relationship | Person in employ of the state | Employer State | Amount / Annual cost |
|---|---|---|---|---|---|
| MUNSOFT - Financial System | Director: Ndiafhi | Spouse | Marry Rerani | Department of Justice | SLA - Continuing |
| MUNSOFT - Financial System | Manager: Nkululeko Nondzaba | Mother | Magdalene Nondzaba | Bojanala District Municipality | SLA - Continuing |
| Imvu Construction Group | Director: Xolani Masiza | Spouse | Noluthando Masiza | Ndlambe Local Municipality | R85 928 223 |
| Nkwali AM Trading (Pty) Ltd | Director: Onke Nyembezi | Spouse | Z. Nciweni | Alfred Nzo District Municipality | R3 099 779 |
| Erra Village (Pty) Ltd | Director: Yvonne Rooi | Spouse | E. Rooi | Alfred Nzo District Municipality | R190 905 |
| Ncuthu Zangwa (Pty) Ltd | Director: Mzwabo Balasane | Spouse | N. Nelani | Alfred Nzo District Municipality | R33 530 |

## Notes to the Annual Financial Statements

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

### 51. Awards to close family members of persons in the service of the state (continued)

**Suppliers paid after 30 days**

Section 65 of the Municipal Finance Management Act. During the year, the municipality did not always comply with the provisions of section 65(2)(e) of the MFMA which requires that all payments be reasonably made within 30 days. This is due to inappropriate documentation, invalid banking details and delays in processing of DWS claims. The total amount of such invoices not paid within 30 days is R 2 489 399.

**Expenditure for accommodation paid in advance**

The municipality introduced cost containment measures and has not been using the services of a travel agency for accommodation, this led to some of the accommodation costs included in the reported total amount of R9 240 616 (2023/2024 R8 259 304) being paid before councilors or employees check in for accommodation, using quotations as opposed to invoices.

### 52. Additional disclosures in terms of Municipal Finance Management Act

| | 2025 | 2024 |
|---|---|---|
| **Contributions to organised local government** | | |
| Current year subscription | 3 630 156 | 3 412 368 |
| Amount paid for current year | (3 630 156) | (3 412 368) |
| | - | - |
| **Audit fees** | | |
| Current year subscription / Fees | 8 291 829 | 6 059 369 |
| Amount paid for current year | (8 291 829) | (6 059 369) |
| | - | - |
| **PAYE, UIF and SDL** | | |
| Current year subscription / Fees | 55 193 620 | 52 757 072 |
| Amount paid for current year | (55 193 620) | (52 757 072) |
| | - | - |
| **Pension and Medical Aid deductions** | | |
| Current year subscription / Fees | 70 718 743 | 61 452 963 |
| Amount paid for current year | (70 718 743) | (61 452 963) |
| | - | - |

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### 53. Related parties

**Related party balances**

| | 2025 | 2024 |
|---|---|---|
| Alfred Nzo Development Agency (ANDA) | 20 000 000 | 20 000 000 |

The remuneration of Councilors, Directors and the Municipal Manager is disclosed in note 31 and 32.

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|---|---|---|

**54. Subsequent Events**

In line with the requirements of GRAP and the Municipal accounting policies on events after the reporting date, the following constitute of adjusting events, as they provide evidence of conditions that existed at the reporting date :-

**Contingent Liabilities**

1. **Umso Construction (Pty) Ltd**

On the 23rd October 2025, a judgement was passed by the High Court of South Africa against the Municipality in matter between the Municipality, applicant and Umso Construction (Pty) Ltd, respondent. The municipality was directed to pay Umso Construction (Pty) Ltd an amount of R 5 390 143, which was disclosed as a contingency liability as at 30 June 2025 and the previous financial years. The amount is for services rendered by Umso Construction (Pty) Ltd to the Municipality.
An adjustment has been made on the annual financial statements and a provision, liability has been raised for an amount of R 5 390 143.

2. **Labour Disputes**

2.1 Zamile Sikhundla vs ANDM – In the 2023/2024 financial year, the Municipal Manager was dismissed by the Council. He was reinstated from 01 September 2025 after he made an appeal to the Bargaining Council and it recommended that he should be reinstated.

2.2 Linda Ndoko vs ANDM – A judgement was passed, with an instruction to appoint Mr Ndoko as the Director Community Services. The Municipality, terminated the appointment of the Director: Community Services that was appointed by the Council. Mr Ndoko was then appointed as Director: Community Services

2.3 Simvumile Mambafula vs ANDM – Another judgement was passed, also instructing the Municipality, to appoint Mr Mambafula, to be appointed as Director: Corporate Services, the municipality then appointed Mr Mambafula as the Director: Corporate Services.

2.4 Luthando Ndamase vs ANDM – The case of Mr Ndamase was also concluded and he was then reinstated and is currently employeed by the Municipality as the driver.