# Nketoana Local Municipality

Annual Financial Statements
for the year ended 30 June 2024

# General Information

| | |
|---|---|
| **Legal form of entity** | Local Municipality |
| **Nature of business and principal activities** | Nketoana Local Municipality performs the functions as set out in the Constitution of the Republic of South Africa Act,1996 (Act No. 105 of 1996) |
| **Mayoral committee** | |
| Executive Mayor | MT Mokoena |
| Councillors | PP Dlamini<br>BM Makhoba (Speaker)<br>K Mofokeng<br>MJ Mosia<br>TE Mokoena<br>K Mofokeng<br>HMC Muller<br>PP Mofokeng (Chief Whip)<br>MA Mabaso<br>DI Mofokeng<br>A Smit<br>M Blignaut<br>LF Miya<br>ML Bosman<br>LG Nhlapo<br>KL Molakeng<br>LJ Mofokeng (Resigned on 03/12/2023<br>MB Mtolo (Appointed on 03/12/2023) |
| **Registered office** | Cnr Church and Voortrekker Street<br>Reitz<br>9810 |
| **Business address** | Cnr Church and Voortrekker Street<br>Reitz<br>9810 |
| **Postal address** | P.O. Box 26<br>Reitz<br>9810 |
| **Bankers** | ABSA Group Limited |
| **Auditors** | Auditor-General of South Africa |
| **Grading Level** | Category B3 |
| **Accounting Officer** | SM Nhlapo |
| **Chief Financial Officer** | JL Makubu |

# Index

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



**Abbreviations used:**

| | |
|---|---|
| CIGFARO | Chartered Institute of Government Finance, Audit & Risk Officers |
| COID | Compensation for Occupational Injuries and Diseases |
| DBSA | Development Bank of South Africa |
| DORA | Division of Revenue Act, 2013 (Act No. 2 of 2013) |
| GRAP | Generally Recognised Accounting Practice |
| MIG | Municipal Infrastructure Grant |
| MFMA | Municipal Finance Management Act, 2003 (Act No. 56 of 2003) |
| mSCOA | Municipal Standard Chart of Accounts |
| WCA | Workers Compensation Assistance |

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2025 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 annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's senior management team and other oversight governance structures of Council.

I certify that the salaries, allowances and benefits of councillors as disclosed in note 51 of these annual financial statements, are within the upper limits of the framework as envisages in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The external auditors , being the Auditor General of South Africa, is responsible for the independent audit and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented separately.

The annual financial statements set out on pages 6 - 110 which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2024 and were signed on its behalf by:

**Accounting Officer**
**SM Nhlapo**

# Accounting Officer's Report

The accounting officers submit their report for the year ended 30 June 2024.

### 1. Review of activities

**Main business and operations**

The municipality is engaged in performing the functions as set out in the Constitution, (Act no 105 of 1996) and operates principally in South Africa. During the year there were no major changes in the activities of the business. The main business operations of the municipality is to engage in local government activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of the following services to the community:

General services - all types of services rendered by the municipality, excluding the supply of housing of the community.

Waste management services - the collection, disposal and recycling of waste.

Electricity services - electricity is bought in bulk from Eskom and distributed to the consumers by the municipality.

Waste water management - collection and purification of waste water.

Water services - supply of water and operates principally in the Free State.

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

Net deficit of the municipality was R 58 497 179 (2023: restated deficit R 535 637 890 ).

### 2. Going concern

We draw attention to the fact that at 30 June 2024, the municipality had an accumulated surplus (deficit) of R 643 041 299 and that the municipality's total assets exceed liabilities by R 643 041 299.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. The analysis of the going concern is clearly depicted in note 52.

Taking the aforementioned into account, management has prepared the annual financial statements on the going concern basis. The basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that government will continue to fund the operations of the municipality through the provision of the equitable share, additionally the accounting officer will continue to tightly manage the cash flow of the municipality and where necessary procure funding for the ongoing operations for the municipality.

### 3. Subsequent events

The accounting officers are not aware of any matter or circumstance arising since the end of the financial year, that would have an impact on the financial statements.

### 4. Accounting Officers' interest in contracts

In terms of the Supply Chain Management Policy of the municipality, councillors and officials are prohibited from entering into commercial transactions with the municipality. The Accounting Officer does not have any interest(s) in contracts of the municipality.

The register of declaration of interest is available in the office of the Chief Whip for inspection.

Consistent with the Supply Chain Management Policy of the municipality, none of the councillors or officers entered into any commercial transaction with the municipality during the period under review.

# Accounting Officer's Report

### 5. Accounting policies

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

### 6. Non-current assets

There were no significant changes in the nature of the non-current assets of the municipality during the year.

### 7. Accounting Officer

The accounting officers of the municipality during the year and to the date of this report are as follows:

| Name | Nationality | Changes |
|---|---|---|
| Mokete Nhlapo | South African | |

### 8. Corporate governance

**General**

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

**Management meetings**

The Accounting Officer meets the section 56 management at least on a monthly basis.

**Internal audit**

The municipality has its own internal audit function. This is in compliance with the Municipal Finance Management Act, 2003 (Act No.56 of 2003).

### 9. Auditors

Auditor-General of South Africa will continue in office for the next financial period, as mandated by the Constitution.

### 10. Non-compliance with applicable legislation

The municipality did not in all instances and transactions made during the financial year comply with the prescripts of the MFMA and related legislations. Instances of non-compliance identified include among others the following:

- Non-compliance with SCM Regulations that resulted in Irregular expenditure reported these annual financial statements;
- Monies owed by the municipality was not always paid within 30 days as required by section 65(2)(e) of the MFMA;
- Unauthorised, Irregular, Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.

The annual financial statements set out on pages 6 to 110, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2024 and were signed on its behalf by:

**Accounting Officer**
**SM Nhlapo**

# Statement of Financial Position as at 30 June 2024

| Figures in Rand | Notes | 2024 | 2023 Restated* |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Inventories | 3 | 18 338 404 | 18 430 039 |
| Other financial assets | 4 | 914 614 | 784 349 |
| Other receivables | 5 | - | 7 980 336 |
| Other receivables from non-exchange transactions | 6 | 10 681 | 4 162 |
| Receivables from non-exchange transactions | 7 | 67 731 636 | 59 683 248 |
| Receivables from exchange transactions | 8 | 544 872 051 | 441 446 980 |
| VAT receivable | 9 | 27 221 412 | 30 165 892 |
| Prepayments | 10 | 1 139 041 | - |
| Cash and cash equivalents | 11 | 8 320 089 | 1 574 547 |
| | | **668 547 928** | **560 069 553** |
| **Non-Current Assets** | | | |
| Biological assets | 12 | 67 702 | 131 881 |
| Investment property | 13 | 78 308 427 | 99 039 092 |
| Property, plant and equipment | 14 | 1 011 335 272 | 1 012 355 811 |
| Heritage assets | 15 | 529 800 | 529 800 |
| Other financial assets | 4 | 852 359 | 994 216 |
| Deposits | 16 | 4 551 261 | 4 272 987 |
| | | **1 095 644 821** | **1 117 323 787** |
| **Total Assets** | | **1 764 192 749** | **1 677 393 340** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Borrowings | 17 | 4 607 335 | 4 117 597 |
| Payables from exchange transactions | 18 | 986 773 105 | 821 765 490 |
| Consumer deposits | 19 | 2 770 156 | 2 441 045 |
| Employee benefit obligation | 20 | 7 174 343 | 6 441 218 |
| Unspent conditional grants and receipts | 21 | (832 692) | 1 699 557 |
| Provisions | 22 | 54 355 750 | 37 223 746 |
| | | **1 054 847 997** | **873 688 653** |
| **Non-Current Liabilities** | | | |
| Employee benefit obligation | 20 | 31 614 994 | 27 469 984 |
| Provisions | 22 | 34 688 459 | 37 835 433 |
| | | **66 303 453** | **65 305 417** |
| **Total Liabilities** | | **1 121 151 450** | **938 994 070** |
| **Net Assets** | | **643 041 299** | **738 399 270** |
| Accumulated surplus | | 643 041 299 | 738 399 270 |
| **Total Net Assets** | | **643 041 299** | **738 399 270** |

* See Note 63

# Statement of Financial Performance

| Figures in Rand | Notes | 2024 | 2023 Restated* |
|---|---|---|---|
| **Revenue** | | | |
| **Revenue from exchange transactions** | | | |
| Service charges | 23 | 274 989 868 | 211 198 871 |
| Interest received (property rates) | 24 | 192 491 656 | 135 401 273 |
| Rental of facilities and equipment | 25 | 2 084 502 | 1 470 734 |
| Licences and permits | 26 | 8 513 | 50 716 |
| Other income | 27 | 1 099 213 | 1 347 797 |
| Interest received - investment | 28 | 931 804 | 611 381 |
| **Total revenue from exchange transactions** | | **471 605 556** | **350 080 772** |
| **Revenue from non-exchange transactions** | | | |
| **Taxation revenue** | | | |
| Property rates | 29 | 18 332 396 | 17 216 790 |
| Interest received (property rates) | 30 | 8 041 622 | 6 532 584 |
| **Transfer revenue** | | | |
| Government grants & subsidies | 31 | 212 281 517 | 188 392 054 |
| In-Kind Revenue | 32 | 6 863 339 | 1 669 842 |
| Fines, Penalties and Forfeits | 33 | 470 131 | 444 250 |
| **Total revenue from non-exchange transactions** | | **245 989 005** | **214 255 520** |
| **Total revenue** | | **717 594 561** | **564 336 292** |
| **Expenditure** | | | |
| Employee related costs | 34 | (175 185 795) | (149 109 537) |
| Remuneration of councillors | 35 | (5 818 902) | (5 618 137) |
| Depreciation and amortisation | 36 | (65 672 144) | (55 245 092) |
| Finance costs | 37 | (42 012 464) | (55 983 922) |
| Lease rentals on operating lease | 38 | (4 267 151) | (3 291 987) |
| Debt Impairment | 39 | (236 200 825) | (653 830 944) |
| Repairs and maintenance | 40 | (10 854 275) | (3 727 987) |
| Bulk purchases | 41 | (99 260 532) | (76 842 544) |
| Contracted services | 42 | (27 299 457) | (16 622 172) |
| General expenses | 43 | (63 386 920) | (73 274 928) |
| **Total expenditure** | | **(729 958 465)** | **(1 093 547 250)** |
| **Operating deficit** | | **(12 363 904)** | **(529 210 958)** |
| Loss on disposal of assets and liabilities | | (6 060 979) | - |
| Fair value adjustments | 44 | (19 065 814) | 7 512 797 |
| Actuarial gains/(losses) | 20 | 325 495 | 2 937 730 |
| (Loss) gain on biological assets and agricultural produce | 45 | (64 179) | 22 027 |
| Impairment loss | 46 | (21 267 798) | (16 899 486) |
| | | **(46 133 275)** | **(6 426 932)** |
| **Deficit for the year** | | **(58 497 179)** | **(535 637 890)** |

* See Note 63

# Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus / deficit | Total net assets |
|---|---|---|
| Opening balance as previously reported | 349 989 349 | 349 989 349 |
| Adjustments | | |
| Prior year adjustments - Refer to Note 63 | 558 239 728 | 558 239 728 |
| **Balance at 01 July 2022 as restated*** | **908 229 077** | **908 229 077** |
| Changes in net assets | | |
| Prior year adustment - refer to note 63 | 365 808 083 | 365 808 083 |
| Net income (losses) recognised directly in net assets | 365 808 083 | 365 808 083 |
| Surplus for the year | (535 637 890) | (535 637 890) |
| Total recognised income and expenses for the year | (169 829 807) | (169 829 807) |
| Total changes | (169 829 807) | (169 829 807) |
| **Restated* Balance at 01 July 2023** | **701 538 478** | **701 538 478** |
| Changes in net assets | | |
| Surplus for the year | (58 497 179) | (58 497 179) |
| Total changes | (58 497 179) | (58 497 179) |
| **Balance at 30 June 2024** | **643 041 299** | **643 041 299** |

* See Note 63

# Cash Flow Statement

| Figures in Rand | Note(s) | 2024 | 2023 Restated* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Taxation | | 17 351 080 | 5 071 062 |
| Sale of goods and services | | 145 685 833 | 166 785 338 |
| Grants | | 216 612 607 | 180 443 794 |
| Interest income | | 931 804 | 611 381 |
| | | 380 581 324 | 352 911 575 |
| **Payments** | | | |
| Employee costs | | (165 868 312) | (153 884 334) |
| Suppliers | | (117 431 498) | (71 314 864) |
| Finance costs | | - | (55 715 832) |
| | | (283 299 810) | (280 915 030) |
| **Net cash flows from operating activities** | 48 | **97 281 514** | **71 996 545** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 14 | (90 329 744) | (69 138 321) |
| **Cash flows from financing activities** | | | |
| Repayment of borrowings | | (206 228) | (760 875) |
| Finance lease payments | | - | (525 279) |
| **Net cash flows from financing activities** | | **(206 228)** | **(1 286 154)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **6 745 542** | **1 572 070** |
| Cash and cash equivalents at the beginning of the year | | 1 574 547 | 2 477 |
| **Cash and cash equivalents at the end of the year** | 11 | **8 320 089** | **1 574 547** |

* See Note 63

# 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 | 211 701 000 | - | **211 701 000** | 274 989 868 | **63 288 868** | 61 |
| Rental of facilities | 1 870 000 | - | **1 870 000** | 2 084 502 | **214 502** | 61 |
| Interest - Proeprty Rates | 93 880 000 | - | **93 880 000** | 192 491 656 | **98 611 656** | 61 |
| Licences and permits | 1 138 000 | (1 118 000) | **20 000** | 8 513 | **(11 487)** | 61 |
| Other income | 2 782 000 | (1 192 000) | **1 590 000** | 1 099 213 | **(490 787)** | 61 |
| Interest received - investment | 290 000 | - | **290 000** | 931 804 | **641 804** | 61 |
| **Total revenue from exchange transactions** | **311 661 000** | **(2 310 000)** | **309 351 000** | **471 605 556** | **162 254 556** | |
| **Revenue from non-exchange transactions** | | | | | | |
| **Taxation revenue** | | | | | | |
| Property rates | 15 809 000 | 2 191 000 | **18 000 000** | 18 332 396 | **332 396** | 61 |
| Interest - Non-Exchange revenue | - | - | **-** | 8 041 622 | **8 041 622** | 61 |
| **Transfer revenue** | | | | | | |
| Government grants & subsidies | 320 123 000 | (8 962 000) | **311 161 000** | 212 281 517 | **(98 879 483)** | 61 |
| In-Kind revenue | - | - | **-** | 6 863 339 | **6 863 339** | 61 |
| Fines, Penalties and Forfeits | 546 000 | 4 000 | **550 000** | 470 131 | **(79 869)** | 61 |
| **Total revenue from non-exchange transactions** | **336 478 000** | **(6 767 000)** | **329 711 000** | **245 989 005** | **(83 721 995)** | |
| **Total revenue** | **648 139 000** | **(9 077 000)** | **639 062 000** | **717 594 561** | **78 532 561** | |
| **Expenditure** | | | | | | |
| Employee related costs | (160 534 000) | - | **(160 534 000)** | (175 185 795) | **(14 651 795)** | 61 |
| Remuneration of councillors | (6 841 000) | - | **(6 841 000)** | (5 818 902) | **1 022 098** | 61 |
| Depreciation and amortisation | (56 000 000) | - | **(56 000 000)** | (65 672 144) | **(9 672 144)** | 61 |
| Finance costs | (32 940 000) | (15 060 000) | **(48 000 000)** | (42 012 464) | **5 987 536** | 61 |
| Lease rentals on operating lease | - | - | **-** | (4 267 151) | **(4 267 151)** | 61 |
| Debt Impairment | (155 000 000) | 55 000 000 | **(100 000 000)** | (236 200 825) | **(136 200 825)** | 61 |
| Repairs and maintenance | - | - | **-** | (10 854 275) | **(10 854 275)** | 61 |
| Bulk Purchases | (92 694 000) | (17 306 000) | **(110 000 000)** | (99 260 532) | **10 739 468** | 61 |
| Contracted Services | (35 000 000) | (17 208 000) | **(52 208 000)** | (27 299 457) | **24 908 543** | 61 |
| General Expenses | (92 668 000) | 26 470 000 | **(66 198 000)** | (63 386 920) | **2 811 080** | 61 |
| **Total expenditure** | **(631 677 000)** | **31 896 000** | **(599 781 000)** | **(729 958 465)** | **(130 177 465)** | |
| **Operating deficit** | **16 462 000** | **22 819 000** | **39 281 000** | **(12 363 904)** | **(51 644 904)** | |
| Loss on disposal of assets | - | - | **-** | (6 060 979) | **(6 060 979)** | 61 |
| Fair value adjustments | - | - | **-** | (19 065 814) | **(19 065 814)** | 61 |
| Actuarial gains/losses | - | - | **-** | 325 495 | **325 495** | |
| Loss on biological assets | - | - | **-** | (64 179) | **(64 179)** | 61 |
| Impairment loss | - | - | **-** | (21 267 798) | **(21 267 798)** | 61 |
| | **-** | **-** | **-** | **(46 133 275)** | **(46 133 275)** | |
| **Deficit before taxation** | **16 462 000** | **22 819 000** | **39 281 000** | **(58 497 179)** | **(97 778 179)** | |

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Position** | | | | | | |
| **Assets** | | | | | | |
| **Current Assets** | | | | | | |
| Inventories | (2 871 000) | 18 256 000 | **15 385 000** | 18 338 404 | **2 953 404** | 61 |
| Other financial assets | - | - | **-** | 914 614 | **914 614** | 61 |
| Other receivables | 4 009 000 | - | **4 009 000** | - | **(4 009 000)** | 61 |
| Receivables from non-exchange transactions | (6 048 000) | 1 271 000 | **(4 777 000)** | 67 731 636 | **72 508 636** | 61 |
| Other non-exchange receivables | - | - | **-** | 10 681 | **10 681** | 61 |
| VAT receivable | 117 673 000 | - | **117 673 000** | 27 221 412 | **(90 451 588)** | 61 |
| Prepayments | - | - | **-** | 1 139 041 | **1 139 041** | 61 |
| Receivables from exchange transactions | (142 410 000) | 55 000 000 | **(87 410 000)** | 544 872 051 | **632 282 051** | 61 |
| Cash and cash equivalents | (31 265 000) | (10 380 000) | **(41 645 000)** | 8 320 089 | **49 965 089** | 61 |
| | **(60 912 000)** | **64 147 000** | **3 235 000** | **668 547 928** | **665 312 928** | |
| **Non-Current Assets** | | | | | | |
| Biological assets | 110 000 | - | **110 000** | 67 702 | **(42 298)** | 61 |
| Investment property | 111 258 000 | - | **111 258 000** | 78 308 427 | **(32 949 573)** | 61 |
| Property, plant and equipment | 1 030 042 000 | (8 982 000) | **1 021 060 000** | 1 011 335 272 | **(9 724 728)** | 61 |
| Heritage assets | 530 000 | - | **530 000** | 529 800 | **(200)** | 61 |
| Other financial assets | 1 857 000 | - | **1 857 000** | 852 359 | **(1 004 641)** | 61 |
| Other receivables | 224 361 000 | - | **224 361 000** | - | **(224 361 000)** | 61 |
| Deposits | - | - | **-** | 4 551 261 | **4 551 261** | 61 |
| | **1 368 158 000** | **(8 982 000)** | **1 359 176 000** | **1 095 644 821** | **(263 531 179)** | |
| **Total Assets** | **1 307 246 000** | **55 165 000** | **1 362 411 000** | **1 764 192 749** | **401 781 749** | |
| **Liabilities** | | | | | | |
| **Current Liabilities** | | | | | | |
| Borrowings | 5 381 000 | - | **5 381 000** | 4 607 335 | **(773 665)** | 61 |
| Payables from exchange transactions | 753 742 000 | 32 366 000 | **786 108 000** | 986 773 106 | **200 665 106** | 61 |
| VAT payable | 96 930 000 | - | **96 930 000** | - | **(96 930 000)** | 61 |
| Consumer deposits | 2 132 000 | - | **2 132 000** | 2 770 156 | **638 156** | 61 |
| Employee benefit obligation | - | - | **-** | 7 174 343 | **7 174 343** | 61 |
| Unspent conditional grants and receipts | 20 505 000 | - | **20 505 000** | (832 692) | **(21 337 692)** | 61 |
| Provisions | 38 091 000 | - | **38 091 000** | 54 355 750 | **16 264 750** | 61 |
| | **916 781 000** | **32 366 000** | **949 147 000** | **1 054 847 998** | **105 700 998** | |
| **Non-Current Liabilities** | | | | | | |
| Employee benefit obligation | 19 734 000 | - | **19 734 000** | 31 614 994 | **11 880 994** | 61 |
| Provisions | 40 377 000 | - | **40 377 000** | 34 688 459 | **(5 688 541)** | 61 |
| | **60 111 000** | **-** | **60 111 000** | **66 303 453** | **6 192 453** | |
| **Total Liabilities** | **976 892 000** | **32 366 000** | **1 009 258 000** | **1 121 151 451** | **111 893 451** | |
| **Net Assets** | **330 354 000** | **22 799 000** | **353 153 000** | **643 041 298** | **289 888 298** | |

# 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 |
|---|---|---|---|---|---|---|
| **Reserves** | | | | | | |
| Capital replacement reserve | 1 455 052 000 | - | **1 455 052 000** | - | **(1 455 052 000)** | |
| Accumulated surplus | (1 124 698 000) | 22 799 000 | **(1 101 899 000)** | 643 041 298 | **1 744 940 298** | 61 |
| **Total Net Assets** | **330 354 000** | **22 799 000** | **353 153 000** | **643 041 298** | **289 888 298** | |

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Cash Flow Statement** | | | | | | |
| **Cash flows from operating activities** | | | | | | |
| **Receipts** | | | | | | |
| Taxation | - | - | **-** | 17 351 080 | **17 351 080** | 61 |
| Sale of goods | - | - | **-** | 145 685 833 | **145 685 833** | 61 |
| Grants | - | - | **-** | 216 612 607 | **216 612 607** | 61 |
| Interest income | - | - | **-** | 931 804 | **931 804** | 61 |
| Other cash item | - | 300 000 | **300 000** | - | **(300 000)** | 61 |
| | **-** | **300 000** | **300 000** | **380 581 324** | **380 281 324** | |
| **Payments** | | | | | | |
| Employee costs | - | - | **-** | (165 868 312) | **(165 868 312)** | 61 |
| Suppliers and employees | - | (23 622 000) | **(23 622 000)** | (117 431 498) | **(93 809 498)** | 61 |
| | **-** | **(23 622 000)** | **(23 622 000)** | **(283 299 810)** | **(259 677 810)** | |
| **Net cash flows from operating activities** | **-** | **(23 322 000)** | **(23 322 000)** | **97 281 514** | **120 603 514** | |
| **Cash flows from investing activities** | | | | | | |
| Capital assets | - | - | **-** | (90 329 744) | **(90 329 744)** | 61 |
| **Cash flows from financing activities** | | | | | | |
| Repayment of borrowings | - | - | **-** | (206 228) | **(206 228)** | 61 |
| Net increase/(decrease) in cash and cash equivalents | - | (23 322 000) | **(23 322 000)** | 6 745 542 | **30 067 542** | 61 |
| Cash and cash equivalents at the beginning of the year | 2 000 | - | **2 000** | 1 574 547 | **1 572 547** | 61 |
| **Cash and cash equivalents at the end of the year** | **2 000** | **(23 322 000)** | **(23 320 000)** | **8 320 089** | **31 640 089** | |

# Significant Accounting Policies

| Figures in Rand | Note(s) | 2024 | 2023 |
|---|---|---|---|

### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act , 2003 (Act No.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 annual financial statements comply with all the requirements of the Standard of Generally Recognised Accounting Practice.

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

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

These accounting policies are consistent with the previous period, unless specifically stated.

### 1.1 Presentation currency

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

### 1.2 Going concern assumption

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

### 1.3 Materiality

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

Material variances are defined as any differences above 10% with the value limited to R1,000,000. Explanations for material differences between the approved and final budget are included in the Statement of Comparison of Budget and Actual Amounts.

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

### 1.4 Significant judgements and sources of estimation uncertainty

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

## Significant Accounting Policies

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

**Service and rates debtors**

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

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

**Allowance for slow moving, damaged and obsolete stock**

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

**Fair value estimation**

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

The fair value of financial line items that are not traded in an active market is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

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

**Impairment testing**

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

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

**Provisions**

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at management's best estimate of the expenditure required to settle the obligations at the reporting date, and are discounted to the present value where the time value effect is material. Additional disclosure of these estimates of provisions are included in note 22 - Provisions.

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

**Post retirement benefits**

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in note 20.

**Prepaid electricity**

Pre-paid electricity is only recognised as income as electricity is consumed. The estimates is based on pre-paid electricity sold at year-end, but still unused.

Estimates of unused consumption of prepaid metered services, based on the consumption history, are made at year-end. Sales for prepaid metered services are recognised as revenue upon receipt of payment for these services, except at year-end when estimates for unused consumption up to reporting date are reversed from revenue and accrued as payment for services received in advance. These accruals are reversed in the new financial year to revenue again, deemed to be consumed after 30 June. In respect of estimates of consumption between the last date of purchase and the reporting date, an accrual for payments received in advance is made based on the average of monthly consumption of consumers on the reporting date.

**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 property, plant and equipment. The municipality re-assess the useful lives and the residual values if material. The estimate is based on industry norms and future plans of the municipality communicated through its strategic planning processes.

If material, management will change the depreciation consideration of the condition and actual use charge where useful lives are more / less than previously estimated.

**Post-retirement benefits**

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 20.

**Effective interest rate**

The municipality uses an appropriate interest rate, taking into account guidance provided in the accounting standards, and applying professional judgement to the specific circumstances, to discount future cash flows.

Appropriate adjustments have been made to compensate for the effect of deferred settlement terms that materially impact on the fair value of the financial instruments, revenue and expenses at initial recognition. The adjustments require a degree of estimation around the discount rate and periods used.

## Significant Accounting Policies

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

**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.

**Water inventory**

The estimation of the water stock in reservoirs is based on the measurement of water via electronic level sensors, where the level indicates the depth of the water in the reservoir, which is then converted into volumes, based on the total capacity of the relevant reservoir. Furthermore, the length and width of all pipes are also considered in determining the volume of water on hand at year-end.

**Allowance for doubtful debt**

On debtors and 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.

**GRAP 24: Presentation of budget information**

The comparison of budget and actual amounts were presented separately for each level of legislative oversight:

- the approved and final budget amount;
- the actual amounts on a comparable basis.

### 1.5 Biological assets

The entity recognises biological assets or agricultural produce when, and only when:
- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets are measured at their fair value less costs to sell.

The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit.

A gain or loss arising on initial recognition of biological assets or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of biological assets is included in surplus or deficit for the period in which it arises.

Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate where applicable is used to determine fair value.

### 1.6 Investment property

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

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

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

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

# Significant Accounting Policies

### 1.6 Investment property (continued)

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

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

Management applies the category below to distinguish Investment Property from Property, Plant and Equipment:
- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as investment properties;
- Land held for a currently undetermined future use;
- A building owned (or held by under a finance lease) and lease out under one or more operating lease;
- Leased properties that are held to provide social (community) service or that are necessary for employees to perform their job incidental to the purpose for which the property is held.
- A building that is vacant but is held to be leased out under one or more operating lease;
- Property that is being constructed or developed for future use as investment property.

**Fair value**

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

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

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.
If the municipality determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

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

All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as investment properties.

Compensation from third parties for investment property.

**Derecognition/Disposal**

Investment properties are derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal. The gain or loss arising on the disposal of an investment property is determined as the difference between the sales proceeds and the carrying value and is recognized in the Statement of Financial Performance.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property (property, plant and equipment), the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Transfers are made from inventories to investment property when a property previously held for sale (as inventory) is now being held to earn rentals or for capital appreciation, or both. On date of transfer, the property will be reclassified from inventories to investment property. The cost of the asset at the time of transfer is used as the deemed cost for subsequent accounting.

# Significant Accounting Policies

### 1.6 Investment property (continued)

Transfers are made from investment property to inventories when a property previously classified as investment property is not held for sale in the ordinary course of business, rather than to earn rental income or capital appreciation. On the date of transfer, the property will be reclassified from investment properties to inventories. The carrying amount of the property at the time of transfer will become the deemed cost for subsequent accounting.

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

### 1.7 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

**Land**

The entity holds land under a deed of title registered in its name. The key judgements made in determining control was based on legal ownership of the land, which grants the municipality the exclusive right to use the land for its operations. Additionally, the municipality has determined that it bears the risk and rewards associated with the land, including exposure to changes in land value and the obligation to maintain the land in accordance with zoning regulations.

Assumptions applied in reaching this conclusion include the assumption that there are no restrictions on the municipality's ability to utilise the land in the foreseeable future, and that the economic benefits derived from land (e.g., through development or long-term use) will accrue to the entity. Futherrmore, based on the legal review of the land title, there are no third-party claims that would diminish the entity's control over the land.

Land is initially measured at cost, which include:

- The purchase price of land.
- Direct attributable costs necessary to bring the land to its current condition for use, such as legal fees, registration cost, and any other cost directly associated with the acquisition of the land.

The municipality uses the cost model to measure land after initial recognition. Under the cost model, land is carried at cost less any accumulated impairment losses.

Land is not subsequent to depreciation because it has an indefinite useful life. Land is considered to have an indefinite useful life unless there is evidence to suggest otherwise (such as legal restrictions that may limit its useful life).

If there is any indication that the land may be impaired, the municipality will assess the recoverable amount of the land and recognise an impairment loss if the carry amounts exceeds the recoverable amount.

Land is derecognised from the financial statements when it is either:

- Sold or transferred, or.
- No future economic benefits or service potential are expected from its use or disposal.

When land is derecognised, any gain or loss arising from the derecognition is determined as the difference between the net proceeds from the sale and the carrying amount of the land at the date of derecognition. This gain or loss is recognised in the Statement of Financial Position.

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

| Item | Depreciation method | Average useful life |
|---|---|---|
| Land | | Indefinite |
| Operational Buildings | Straight-line | Maximum of 50 Years |
| Community Assets | Straight-line | Maximum of 80 years |
| Furniture and Office Equipment | Straight-line | 3 - 15 years |
| Transport Assets | Straight-line | 5 - 15 years |
| Machinery and Equipment | Straight-line | 2 - 15 years |
| Computer Equipment | Straight-line | 5 - 10 years |
| Electricity Network | Straight-line | 15 - 50 years |
| Road and Stormwater Network | Straight-line | 5 - 50 years |
| Sanitation Network | Straight-line | 10 - 70 years |
| Water Supply Network | Straight-line | 5 - 70 years |
| Solid Waste | Straight-line | 3 - 50 years |
| Leased Assets | Straight-line | 3 years |
| Wastewater network | Straight-line | 5 - 70 years |
| Water network | Straight-line | 5 - 70 years |

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

# Significant Accounting Policies

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

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 financial statements (see note 14).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 14).

**Derecognition**

The carrying amount of an item of property, plant and equipment is 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 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.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in the surplus or deficit when the compensation becomes receivable.

### 1.8 Site restoration and dismantling cost

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

## Significant Accounting Policies

### 1.8 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:

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

### 1.9 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 a 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.

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.

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

**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.

**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.

# Significant Accounting Policies

### 1.9 Heritage assets (continued)

**Subsequent measurement**

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

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

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

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

**Impairment**

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

**Derecognition**

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

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

### 1.10 Financial instruments

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

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

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

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

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

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

### 1.10 Financial instruments (continued)

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

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

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

A financial 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.

## Significant Accounting Policies

### 1.10 Financial instruments (continued)

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

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

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

Financial instruments at fair value comprise financial assets or financial liabilities that are:

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

# Significant Accounting Policies

### 1.10 Financial instruments (continued)

**Classification**

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

| Class | Category |
|---|---|
| Other financial assets | Financial asset measured at amortised cost |
| Receivables from exchange transactions | Financial asset measured at amortised cost |
| Deposits | Financial asset measured at amortised cost |
| Cash and cash equivalents | 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 |
|---|---|
| Borrowings | Financial liability measured at amortised cost |
| Payables from exchange transactions | Financial liability measured at amortised cost |
| Consumer deposits | Financial liability measured at amortised cost |
| | Financial liability measured at amortised cost |

**Initial recognition**

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

The entity recognises financial assets using trade date accounting.

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

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability
.
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.

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

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

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

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

### 1.10 Financial instruments (continued)

**Fair value measurement considerations**

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

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

**Reclassification**

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

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

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

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

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

**Gains and losses**

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

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

# Significant Accounting Policies

### 1.10 Financial instruments (continued)

**Impairment and uncollectibility of financial assets**

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

**Derecognitions**

**Financial assets**.

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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

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

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

### 1.10 Financial instruments (continued)

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

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

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

**Financial liabilities**

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

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

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

**Presentation**

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

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

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

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

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

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

### 1.11 Statutory receivables

**Identification**

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

## Significant Accounting Policies

### 1.11 Statutory receivables (continued)

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

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

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

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

The municipality has the following major categories under the ambit of statutory receivables

- VAT Receivables
- Property rate debtors
- Traffic fine debtors

**Recognition**

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

**Initial measurement**

The municipality initially measures statutory receivables at their transaction amount.

**Subsequent measurement**

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

**Accrued interest**

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

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

**Other charges**

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

**Impairment losses**

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

### 1.11 Statutory receivables (continued)

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

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

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

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

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

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

**Derecognition**

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

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

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

### 1.12 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.

## Significant Accounting Policies

### 1.12 Inventories (continued)

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 first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

### 1.13 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.

### 1.13 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.

### 1.13 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.

**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.

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

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.

**Reversal of impairment loss**

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

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

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

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

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

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

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

**Redesignation**

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

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

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

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

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.

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

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

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

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

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

**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.

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

**Value in use**

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

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

**Depreciated replacement cost approach**

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

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

**Restoration cost approach**

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

**Recognition and measurement**

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

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

#### Reversal of an impairment loss

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

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

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

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

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

#### Redesignation

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

### 1.15 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.

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.

### 1.15 Employee benefits (continued)

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.

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

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

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

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

### 1.15 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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;

## Significant Accounting Policies

### 1.15 Employee benefits (continued)

- 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.

**Actuarial assumptions**

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

### 1.15 Employee benefits (continued)

**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.

**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.

### 1.16 Provisions and contingencies

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

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

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.

# Significant Accounting Policies

### 1.16 Provisions and contingencies (continued)

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

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

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

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

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

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

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 50.

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;

### 1.16 Provisions and contingencies (continued)

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

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

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

**Decommissioning, restoration and similar liability**

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

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.13 and 1.14.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

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

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

### 1.17 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.

# Significant Accounting Policies

### 1.17 Commitments (continued)

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.

### 1.18 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.

# Significant Accounting Policies

### 1.18 Revenue from exchange transactions (continued)

**Rendering of services**

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

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

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

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

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.

# Significant Accounting Policies

### 1.18 Revenue from exchange transactions (continued)

**Interest and dividends**

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

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

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

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

### 1.18 Revenue from exchange transactions (continued)

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

**Stage of Completion - Electricity Revenue**

Revenue from the sale of electricity is recognized based on the amount of electricity consumed during the period. The municipality uses monthly meter readings to measure the stage of completion. Revenue is recognized in the period in which electricity is consumed, with adjustments made for any unbilled consumption at the reporting date based on estimated usage.

Where meter readings are unavailable at the end of the reporting period, estimates are applied based on historical consumption data and patterns. Any subsequent adjustments to revenue are recognized when accurate meter readings are obtained.

**Stage of Completion - Water Revenue**

Revenue from the sale of water is recognized in the period in which water is consumed by customers. The municipality determines the stage of completion based on the meter readings taken on a regular basis. Water revenue is recognized in line with the amount of water consumed, as measured through water meters.

Where meter readings are not available at the end of the reporting period, the municipality estimates the water consumption using historical data, average usage patterns, or other relevant factors. Adjustments are made in the subsequent period when actual consumption data is available.

**Stage of completion - Sewer and Sanitation**

Revenue from sewer and sanitation services is recognized as the services are rendered to customers, either based on the volume of water consumed or fixed periodic fees. For sewer services that are linked to water consumption, revenue is recognized in accordance with the amount of water used, which is measured by water meters.

In instances where meter readings are not available at the end of the reporting period, the municipality estimates sewerage consumption based on historical usage or average consumption patterns, with revenue recognized accordingly. Adjustments to previously recognized revenue are made in the subsequent period when actual consumption data becomes available.

**Stage of completion - Refuse**

Revenue from refuse collection services is recognized as the services are provided to customers, typically on a monthly or quarterly basis. For services that are billed on a fixed fee basis, revenue is recognized evenly over the service period. In cases where refuse collection is billed per event or volume, revenue is recognized for each service event as it occurs.

Where meter readings or service records are unavailable at the reporting period end, the municipality estimates the services rendered using historical data or average billing patterns. Adjustments to revenue are made when actual service data or final billing information is received in the subsequent period.

**Stage of completion - Rental and Sundry revenue**

Rental revenue is recognized on a straight-line basis over the term of the lease, in accordance with the terms of each lease agreement. Fixed lease payments are recognized evenly over the lease term. Where rental income is subject to variable payments (e.g., based on usage or revenue generated by tenants), revenue is recognized when the payments are made, or based on estimates if not yet determinable.

Sundry revenue, including service fees and penalties, is recognized as the related services are rendered or when the relevant event occurs. Service fees are recognized based on actual services provided, while fines and penalties are recognized when the infraction or violation takes place.

Where applicable, the municipality uses estimates to recognize revenue for unbilled service fees or penalties, based on historical data and trends. Adjustments are made in the subsequent period when actual data is available.

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# Significant Accounting Policies

### 1.19 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

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

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

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

#### 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.

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

**Measurement**

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

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

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

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

**Taxes**

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

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

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

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

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

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

**Transfers**

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

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

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

**Debt forgiveness and assumption of liabilities**

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

# Significant Accounting Policies

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

**Fines**

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

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

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

**Bequests**

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

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

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

**Services in-kind**

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

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

**Government Grants and subsidies**

**Unconditional grants**

Equitable share allocations are recognised in revenue at the start of the financial year.

**Conditional grants**

Conditional grants recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such a requirement are not enforceable, or where past experience has indicated that the transferor as never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Interest earned on grants received and invested is treated in accordance with grant conditions. If it payable to the funder it is recorded as part of the creditor and if it is the municipality's interest it is recognised as interest earned in the Statement of financial performance.

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

### 1.20 Borrowing costs

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

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

### 1.21 Comparative figures

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts due are also reclassified and restated, unless such comparative reclassifications and/or restatements are not required by a Standard of GRAP. The nature and reason for such reclassifications and restatements are also disclosed.

Where material accounting errors, which relate to prior periods, have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

The presentation and classification of items in the current yera is consistent with the prior periods, except where otherwise indicated.

### 1.22 Unauthorised expenditure

Unauthorised expenditure means:

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

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

### 1.23 Fruitless and wasteful expenditure

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

Fruitless and wasteful 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.

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.

# Significant Accounting Policies

### 1.24 Irregular expenditure

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

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

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

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

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

### 1.25 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

### 1.26 Budget information

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

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

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

The approved budget covers the fiscal period from 2023/07/01 to 2024/06/30.

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

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

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

## Significant Accounting Policies

### 1.27 Related parties

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

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

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

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

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

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

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

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

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

### 1.28 Events after reporting date

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

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

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

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

# Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
|---|---|---|

## 2. New standards and interpretations

### 2.1 Standards and interpretations issued

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2023 or later periods:

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
|---|---|---|
| • GRAP 25 (as revised): Employee Benefits | 01 April 2023 | The impact was not material |
| • iGRAP 7 (as revised): Limit on defined benefit asset, minimum funding requirements and their interaction | 01 April 2023 | The impact was not material |
| • Guideline: Guideline on the Application of Materiality to Financial Statements | 01 April 2023 | The impact was not material |
| • GRAP 104 (as revised): Financial Instruments | 01 April 2025 | Unlikely there will be a material impact |

### 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 2023 or later periods but are not relevant to its operations:

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
|---|---|---|
| • GRAP 104 (Revised) financial instruments | 01 April 2025 | Unlikely there will be a material impact |
| • The Application of Materiality to Financial Statements | 01 April 2024 | Unlikely there will be a material impact |
| • GRAP 103 (as revised): Heritage Assets | 01 April 2024 | Unlikely there will be a material impact |
| • GRAP 1 (amended): Presentation of Financial Statements | 01 April 2024 | Unlikely there will be a material impact |

## 3. Inventories

| | 2024 | 2023 |
|---|---|---|
| Consumable stores | 95 738 | 219 893 |
| Water for distribution | 228 139 | 195 619 |
| Unsold Properties Held for Resale | 18 014 527 | 18 014 527 |
| | **18 338 404** | **18 430 039** |

| | 2024 | 2023 |
|---|---|---|
| Inventories recognised as an expense during the year | 9 622 852 | 16 650 042 |

**Inventory pledged as security**

No inventory was pledged as security for any overdraft facilities or financial liabilities of the municipality.

## 4. Other financial assets

| | 2024 | 2023 |
|---|---|---|
| **Residual interest at cost** | | |
| Unlisted shares<br>VKB Agricultural (Pty) Ltd. | 5 000 | 5 000 |
| Preference shares<br>VKB Agricultural (Pty) Ltd. | 465 840 | 492 024 |
| Security shareholders loan<br>VKB Agricultural (Pty) Ltd. | 423 956 | 471 948 |
| | **894 796** | **968 972** |

| Figures in Rand | 2024 | 2023 |
|---|---|---|

### 4. Other financial assets (continued)

| | | |
|---|---|---|
| **At amortised cost** | | |
| Old Mutual Policy 5208945 | 837 161 | 776 706 |
| This policy has been established to provide assurance for the life of HC Doman and HG Theron. | | |
| Standard Bank - Money Market account | 35 016 | 32 887 |
| No other financial assets are pledged as security. | | |
| | **872 177** | **809 593** |
| **Total other financial assets** | **1 766 973** | **1 778 565** |

| | | |
|---|---|---|
| **Non-current assets** | | |
| Residual interest at cost | 817 343 | 961 329 |
| At amortised cost | 35 016 | 32 887 |
| | **852 359** | **994 216** |

| | | |
|---|---|---|
| **Current assets** | | |
| Residual interest at cost | 77 453 | 7 643 |
| At amortised cost | 837 161 | 776 706 |
| | **914 614** | **784 349** |

### 5. Other receivables

| | | |
|---|---|---|
| Unauthorised payments to suppliers | - | 7 980 336 |
| | **-** | **7 980 336** |

During the 2014/2015 financial year, the municipality's financial reporting system was fraudulently manipulated to effect unauthorised payments to their suppliers/creditors for work not done. A case of fraud was opened with the Hawks and an investigation is still currently underway. A receivable was raised following a council decision to investigate the matter and recover the monies lost to the municipality.

Subsequently, this matter was investigated, and no substantiating evidence could be obtained in this regard. This item also formed part of the disclaimer paragraphs in the prior year audit report. The receivable was written off by the Council during the current financial year.

No other receivables are pledged as security.

### 6. Other receivables from non-exchange transactions

| | | |
|---|---|---|
| Traffic fines | 182 210 | 259 600 |
| Less: Allowance for impairment | (171 529) | (255 438) |
| | **10 681** | **4 162** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
|---|---|---|

### 6. Other receivables from non-exchange transactions (continued)

**Statutory receivables general information**

Ageing as per Traffic Fine Schedule:

| | | |
|---|---|---|
| 0 - 30 days | 7 150 | 7 200 |
| 31 - 60 days | 3 200 | 26 050 |
| 61 - 90 days | 5 700 | 13 900 |
| 91- 365 days | 86 950 | 190 500 |
| > 365 days | 79 210 | 21 950 |
| Less: Allowance for impairment | (171 529) | (255 438) |
| | **10 681** | **4 162** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
|---|---|---|

## 7. Receivables from non-exchange transactions

| | | |
|---|---|---|
| **Gross balances** | | |
| Consumer debtors - Rates | 83 779 626 | 74 363 948 |
| **Less: Allowance for impairment** | | |
| Consumer debtors - Rates | (16 047 990) | (14 680 700) |
| **Net balance** | | |
| Consumer debtors - Rates | 67 731 636 | 59 683 248 |
| **Rates** | | |
| Current (0 -30 days) | 2 060 608 | 1 969 690 |
| 31 - 60 days | 1 522 644 | 1 434 793 |
| 61 - 90 days | 1 445 571 | 1 364 811 |
| 91 - 365 days | 11 717 727 | 10 481 207 |
| > 365 days | 67 033 076 | 59 113 447 |
| Less: Allowance for impairment | (16 047 990) | (14 680 700) |
| | **67 731 636** | **59 683 248** |

## 8. Receivables from exchange transactions

| | | |
|---|---|---|
| **Gross balances** | | |
| Electricity | 70 636 157 | 48 079 705 |
| Water | 421 570 269 | 332 862 575 |
| Sewerage | 204 224 821 | 172 632 128 |
| Refuse | 218 935 085 | 182 848 594 |
| Sundry debtors | 369 389 093 | 269 296 668 |
| Housing rental | 4 874 543 | 3 816 911 |
| | **1 289 629 968** | **1 009 536 581** |
| **Less: Allowance for impairment** | | |
| Electricity | (23 865 042) | (3 832 401) |
| Water | (239 573 367) | (181 475 668) |
| Sewerage | (124 410 114) | (101 946 055) |
| Refuse | (137 318 582) | (114 728 610) |
| Sundry debtors | (219 147 331) | (162 427 166) |
| Housing rental | (443 481) | (3 679 701) |
| | **(744 757 917)** | **(568 089 601)** |
| **Net balance** | | |
| Electricity | 46 771 115 | 44 247 304 |
| Water | 181 996 902 | 151 386 907 |
| Sewerage | 79 814 707 | 70 686 073 |
| Refuse | 81 616 503 | 68 119 984 |
| Sundry debtors | 150 241 762 | 106 869 502 |
| Housing rental | 4 431 062 | 137 210 |
| | **544 872 051** | **441 446 980** |

| Figures in Rand | 2024 | 2023 |
| --- | --- | --- |

### 8. Receivables from exchange transactions (continued)

| | | |
| --- | --- | --- |
| **Electricity** | | |
| 31 - 60 days | 9 329 383 | 5 763 818 |
| 61 - 90 days | 7 060 184 | 3 607 619 |
| 91 - 365 days | 28 415 707 | 19 007 029 |
| >365 days | 23 927 540 | 19 701 239 |
| Less: Allowance for impairment | (23 865 042) | (3 832 401) |
| | **44 867 772** | **44 247 304** |
| **Water** | | |
| 31 - 60 days | 17 028 150 | 9 767 660 |
| 61 - 90 days | 12 983 522 | 8 119 643 |
| 91 - 365 days | 94 805 311 | 65 659 567 |
| > 365 days | 296 753 286 | 249 315 705 |
| Less: Allowance for impairment | (239 573 367) | (181 475 668) |
| | **181 996 902** | **151 386 907** |
| **Sewerage** | | |
| 31 - 60 days | 5 251 990 | 5 953 554 |
| 61 - 90 days | 4 824 162 | 5 014 423 |
| 91 - 365 days | 42 811 713 | 35 252 350 |
| > 365 days | 151 336 957 | 126 411 801 |
| Less: Allowance for impairment | (124 410 115) | (101 946 055) |
| | **79 814 707** | **70 686 073** |
| **Refuse** | | |
| 31 - 60 days | 4 781 639 | 4 305 004 |
| 61 - 90 days | 4 354 620 | 3 632 782 |
| 91 - 365 days | 39 010 300 | 32 056 015 |
| > 365 days | 170 788 526 | 142 854 793 |
| Less: Allowance for impairment | (137 318 582) | (114 728 610) |
| | **81 616 503** | **68 119 984** |
| **Sundry debtors** | | |
| 31 - 60 days | 10 429 191 | 7 825 855 |
| 61 - 90 days | 10 126 398 | 7 167 864 |
| 91 - 365 days | 90 201 625 | 58 546 516 |
| > 365 days | 258 644 915 | 195 749 899 |
| Less: Allowance for impairment | (219 147 331) | (162 427 166) |
| | **150 254 798** | **106 862 968** |

**Consumer debtors pledged as security**

None of the consumer receivables from exchange transactions were pledged as security for any financial liability.

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

None of the consumer receivables from exchange transactions that are fully performing have been renegotiated in the last year.

| Figures in Rand | 2024 | 2023 |
| --- | --- | --- |

### 9. VAT receivable

| | | |
| --- | --- | --- |
| VAT | 27 221 412 | 30 165 892 |
| | **27 221 412** | **30 165 892** |

VAT is receivable and payable on the receipts and payment basis. Only once payment is received from debtors, VAT is paid to SARS. The amount presented in this note includes VAT accounted for on the accrual basis and therefore not yet payable to the municipality (by SARS).

### 10. Prepayments

| | | |
| --- | --- | --- |
| **Prepaid Insurance** | | |
| Insurance | 1 139 041 | - |
| | **1 139 041** | **-** |

This prepaid amount pertains to the 25/26 portion of the short-term insurance premium. Kunene Makopo Risk Solutions is the insurance intermediary and the period of cover is from 01 June 2024 to 31 May 2025.

The current financial year included the insurance cover for June 2024 (R103,549).

### 11. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
| --- | --- | --- |
| Cash on hand | 48 036 | 38 736 |
| Bank balances | 8 272 053 | 1 535 811 |
| | **8 320 089** | **1 574 547** |

Nketoana Local Municipality has a R 500 000 Fleet Card Facility with ABSA (Account Number: 2170142538). The interest rate payable on the Fleet Card Facility is variable and linked to the prime lending rate. There are no pledges or securities linked to this Fleet Card Facility. At yearend, the overdraft facility was unused.

**The municipality had the following bank accounts**

| Account number / description | Bank statement balances | | | Cash book balances | | |
| --- | --- | --- | --- | --- | --- | --- |
| | 30 June 2024 | 30 June 2023 | 30 June 2022 | 30 June 2024 | 30 June 2023 | 30 June 2022 |
| ABSA - Operating account - 2170560119 | 8 143 661 | 139 902 | (427 129) | 7 664 260 | 1 501 367 | 196 481 |
| ABSA - Banktel Account - 2170142538 | 646 064 | 20 633 | 41 318 | (855 338) | (36 267) | (378 988) |
| ABSA - Call account - 9074155973 | 1 463 131 | 70 711 | 52 271 | 1 463 131 | 70 711 | 52 271 |
| **Total** | **10 252 856** | **231 246** | **(333 540)** | **8 272 053** | **1 535 811** | **(130 236)** |

### 12. Biological assets

| | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Game | 67 702 | - | 67 702 | 131 881 | - | 131 881 |

**Reconciliation of biological assets - 2024**

| | Opening balance | Gains or losses arising from changes in fair value | Total |
|---|---|---|---|
| Game | 131 881 | (64 179) | 67 702 |

**Reconciliation of biological assets - 2023**

| | Opening balance | Gains or losses arising from changes in fair value | Total |
|---|---|---|---|
| Game | 109 854 | 22 027 | 131 881 |

**Non-financial information**

| **Quantities of each biological asset** | | |
|---|---|---|
| Springbuck | 8 | 4 |
| Blesbok | 42 | 39 |
| Zebra | 1 | 2 |
| Wildebeest | 1 | 1 |
| | **52** | **46** |

### 13. Investment property

| | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Investment property | 78 308 427 | - | 78 308 427 | 99 039 092 | - | 99 039 092 |

**Reconciliation of investment property - 2024**

| | Opening balance | Disposals | Fair value adjustments | Total |
|---|---|---|---|---|
| Investment property | 99 039 092 | (1 604 397) | (19 126 268) | 78 308 427 |

### 13. Investment property (continued)

**Reconciliation of investment property - 2023**

| | Opening balance | Disposals | Fair value adjustments | Total |
|---|---|---|---|---|
| Investment property | 93 303 035 | - | 5 736 057 | 99 039 092 |

**Pledged as security**

No investment property assets are pledged as security.

There are no restrictions on the remittance of revenue and proceeds on disposals relating to investment property.

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

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.

Determination of fair value of investment property

Land and buildings are appraised by an external Independent Property Valuer or an expert with the requisite competence to undertake such appraisals in accordance with the requirements of the applicable standards of GRAP.

In estimating the fair value of all investment properties, their current use equates to the highest and best use. The value of investment property comprising of land and buildings was determined by using a combination of valuation approaches. Each of these approaches assessed the relevance of each specific property based on their nature, use and comparable market transactions.

The preferred valuation methodology applied to vacant land was that of comparable market-related sales based on use, location and extent. In cases where no reasonable comparable sales were available the discounted cash flow methodology was used based on market-related rentals for similar properties. Investment properties were fair valued for the 2023/2024 financial year utilising the independent Property Barometer issued by First National Bank, Economics and Statistical departments. The Year-on-Year increase in the Housing Price Index was annotated at 0,4975% (July 2023 - June 2024).

**Maintenance of investment property**

No repairs or maintenance were carried out on the investment property during the current or prior financial year.

**Amounts recognised in surplus or deficit**

| | 2024 | 2023 |
|---|---|---|
| Rental revenue from Investment property | 2 084 502 | 1 470 734 |

### 14. Property, plant and equipment

| | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Land | 25 747 820 | 230 000 | 25 977 820 | 25 747 820 | - | 25 747 820 |
| Operational Buildings | 42 254 870 | (26 632 408) | 15 622 462 | 46 158 447 | (29 319 749) | 16 838 698 |
| Community buildings and facilities | 186 915 613 | (116 524 091) | 70 391 522 | 208 672 077 | (131 566 321) | 77 105 756 |
| Infrastructure | 2 014 805 818 | (1 154 595 972) | 860 209 846 | 1 973 686 218 | (1 137 936 637) | 835 749 581 |
| Leased assets | - | - | - | 2 471 389 | (2 308 374) | 163 015 |
| Movable assets | 14 538 262 | (8 801 982) | 5 736 280 | 16 590 263 | (11 487 663) | 5 102 600 |
| Solid waste disposal | 106 224 024 | (82 114 435) | 24 109 589 | 98 299 678 | (58 693 961) | 39 605 717 |
| Transport assets | 14 381 705 | (5 093 952) | 9 287 753 | 17 274 830 | (5 232 206) | 12 042 624 |
| **Total** | **2 404 868 112** | **(1 393 532 840)** | **1 011 335 272** | **2 388 900 722** | **(1 376 544 911)** | **1 012 355 811** |

## Notes to the Annual Financial Statements

Figures in Rand

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

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

| | Opening balance | Additions | Donations | Completed Projects Transferred From WIP | Disposals/D erecognition | Additions - WIP | Transferred To Completed Assets - WIP | Movement in Landfill Provision | Depreciation | Impairment loss | Impairment reversal | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Land | 25 747 820 | - | - | - | - | - | - | - | - | - | 230 000 | 25 977 820 |
| Operating Buildings | 16 838 698 | - | - | 189 000 | - | 189 000 | (189 000) | - | (645 577) | (804 213) | 44 553 | 15 622 461 |
| Transport assets | 12 042 624 | - | - | - | (685 045) | - | - | - | (1 877 230) | (192 597) | - | 9 287 752 |
| Infrastructure | 835 749 581 | - | - | 35 408 751 | (2 969 677) | 76 971 601 | (35 408 751) | - | (33 547 199) | (17 434 643) | 1 440 183 | 860 209 846 |
| Community | 77 105 756 | - | - | 1 847 793 | (51 788) | 790 979 | (1 847 793) | - | (3 520 786) | (4 182 944) | 250 306 | 70 391 523 |
| Movable assets | 5 102 600 | 2 459 116 | 46 239 | - | (568 514) | - | - | - | (1 189 742) | (113 418) | - | 5 736 281 |
| Solid waste disposal | 39 605 717 | 23 693 630 | - | - | (181 557) | - | - | (14 004 582) | (24 728 594) | (318 181) | 43 156 | 24 109 589 |
| Leased assets | 163 016 | - | - | - | - | - | - | - | (163 016) | - | - | - |
| | **1 012 355 812** | **26 152 746** | **46 239** | **37 445 544** | **(4 456 581)** | **77 951 580** | **(37 445 544)** | **(14 004 582)** | **(65 672 144)** | **(23 045 996)** | **2 008 198** | **1 011 335 272** |

**Reconciliation of property, plant and equipment - 2023**

| | Opening balance | Additions | Donations | Completed Projects Transferred From WIP | Additions - WIP | Completed Projects Transferred From WIP | Depreciation | Impairment loss | Impairment reversal | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Land | 25 747 820 | - | - | - | - | - | - | - | - | 25 747 820 |
| Operating Buildings | 17 526 340 | - | - | - | - | - | (687 642) | - | - | 16 838 698 |
| Transport assets | 6 941 785 | 6 054 003 | - | - | - | - | (857 908) | (95 256) | - | 12 042 624 |
| Infrastructure | 817 195 582 | - | - | 13 546 548 | 72 480 254 | (13 546 548) | (43 792 756) | (10 133 499) | - | 835 749 581 |
| Community | 83 850 086 | - | - | 157 080 | 1 085 706 | (157 080) | (3 915 617) | (3 914 419) | - | 77 105 756 |
| Movable assets | 5 472 613 | 977 923 | - | - | - | - | (1 244 001) | (103 935) | - | 5 102 600 |
| Solid waste disposal | 46 888 769 | - | - | - | - | - | (4 630 674) | (2 652 378) | - | 39 605 717 |
| Leased assets | 279 511 | - | - | - | - | - | (116 495) | - | - | 163 016 |
| | **1 003 902 506** | **7 031 926** | **-** | **13 703 628** | **73 565 960** | **(13 703 628)** | **(55 245 093)** | **(16 899 487)** | **-** | **1 012 355 812** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
| --- | --- | --- |

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

**Pledged as security**

None of the property, plant and equipment above is pledged as security for overdraft or financial liabilities of the municipality.

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

| | | |
| --- | --- | --- |
| **Cumulative expenditure recognised in the carrying value of property, plant and equipment** | | |
| Community | - | 1 056 813 |
| Solid waste disposal | 668 921 | 668 921 |
| Infrastructure | 259 815 672 | 224 281 825 |
| | **260 484 593** | **226 007 559** |

| | | |
| --- | --- | --- |
| **Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected or that were halted during the year:** | | |
| Petrus Steyn to Reitz Pipeline - 15km Water Pipeline<br>The 42km pipeline is build in phases and the 15km phase is almost complete and will be capitalised upon completion of all other phases. The project is delayed due to contractual dispute with contractor and the contract with consultant was terminated. A new consultant was appointed to oversee the completion of the project. | 33 861 249 | 33 861 249 |
| Petrus Steyn to Reitz Pipeline - 5km Water Pipeline<br>The 42km pipeline is build in phases and the 5km phase is almost complete and will be capitalised upon completion of all other phases. | 8 831 853 | 8 831 853 |
| Petrus Steyn to Reitz Pipeline - 10km Water Pipeline<br>The 42 km pipeline is build in phases and the 10km pipe line is practically completed and will be capitalised upon completion of all other phases of the pipeline. | 17 436 342 | 17 436 342 |
| Mamafubedu: Sewer and recycled network and toilet connection project (This project was halted during the year)<br>The project has taken significantly longer period of time to complete than expected. The project value is R 36 237 398 and was funded by MIG for R 29 957 500. Construction has been halted as there has not been any activity for over five years. | 16 778 046 | 22 807 049 |
| Petrus Steyn to Reitz Pipeline: 12km Water Pipeline phase 2d<br>The 12 km pipeline is built is the final phase of the 42km pipeline. The final phase has however taken longer to complete than initially envisaged. | 45 228 497 | - |
| High Lift Pump Station<br>The high lift pump station is taking longer to complete due to unforeseen circumstances. | 10 286 591 | - |
| Water Sanitation New 1ML Concrete Reservoir in Reitz 2930<br>The project is taking longer to complete due to unforseen circumstances. | 29 383 042 | - |
| | **161 805 620** | **82 936 493** |

**Reconciliation of Work-in-Progress included in property, plant and equipment - 2024**

| | Included within Infrastructure | Included within Buildings | Total |
| --- | --- | --- | --- |
| Opening balance | 224 950 746 | 1 056 814 | 226 007 560 |
| Additions/capital expenditure | 76 971 601 | 979 979 | 77 951 580 |
| Other movements [specify] | (6 029 003) | - | (6 029 003) |
| Transferred to completed items | (35 408 751) | (2 036 793) | (37 445 544) |
| | **260 484 593** | **-** | **260 484 593** |

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

**Reconciliation of Work-in-Progress included in property, plant and equipment - 2023**

| | Included within Infrastructure | Included within Buildings | Total |
|---|---|---|---|
| Opening balance | 166 017 041 | 128 188 | 166 145 229 |
| Additions/capital expenditure | 72 480 254 | 1 085 705 | 73 565 959 |
| Transferred to completed items | (13 546 548) | - | (13 546 548) |
| | **224 950 747** | **1 213 893** | **226 164 640** |

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

| | 2024 | 2023 |
|---|---|---|
| Repairs and maintenance | 10 854 275 | 3 727 987 |

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.

### 15. Heritage assets

| | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated impairment losses | Carrying value | Cost / Valuation | Accumulated impairment losses | Carrying value |
| Heritage assets | 529 800 | - | 529 800 | 529 800 | - | 529 800 |

**Reconciliation of heritage assets 2024**

| | Opening balance | Total |
|---|---|---|
| Heritage assets | 529 800 | 529 800 |

**Reconciliation of heritage assets 2023**

| | Opening balance | Total |
|---|---|---|
| Heritage assets | 529 800 | 529 800 |

### 16. Deposits

| | 2024 | 2023 |
|---|---|---|
| Current deposits | 4 551 261 | 4 272 987 |
| | **4 551 261** | **4 272 987** |

The long-term deposit is held by Eskom for the upgrades to the electricity network performed by the municipality.

The long-term deposit bears interest at 6.5% per annum. If the municipality cancels the service agreement with Eskom, the deposit amount will be paid back. If the account to which a deposit relates, is in arrears, the deposit will be appropriated towards the specific account.

| Figures in Rand | 2024 | 2023 |
|---|---|---|

### 17. Borrowings

| | | |
|---|---|---|
| **At amortised cost** | | |
| The Development Bank of South Africa Limited | 4 607 335 | 4 117 597 |

Development Bank of South Africa

The original loan amount was R9 600 000 repayable over 20 years with a redemption date of 31 December 2024.

On 14 August 2017, an agreement was made between DBSA and the Municipality for repayment of outstanding debt and arrears.

DBSA approved the release of collateral ceded to DBSA held by Standard Bank as security for the loans as partial repayment.

The outstanding balance including arrears of the two loans as disclosed below be consolidated into one loan with the same interest rate of 9.26%

There is currently no new payment arrangement in place for the repayment of the loan.

| | | |
|---|---|---|
| **Current liabilities** | | |
| At amortised cost | 4 607 335 | 4 117 597 |

**Defaults and breaches**

The loan from DBSA with principal amount of R9 600 000 (2023: R9 600 000) was in default as a result of not meeting capital repayment requirements as per the contractual arrangements. This was due to cash flow constraints and timing delays. The default has not been rectified before annual financial statements were authorised for issue and resulted in incurrence of Fruitless and Wasteful Expenditure which is disclosed in Note 54.

Interest with an interest rate of 11.26% is currently being capitalised monthly on the loan balance in arrears.

### 18. Payables from exchange transactions

| | | |
|---|---|---|
| Trade payables | 832 157 845 | 788 992 317 |
| Payments received in advanced | 5 585 448 | 10 511 261 |
| Payables and accruals | 1 827 073 | - |
| Accrued leave pay | 13 603 324 | 8 846 710 |
| Accrued bonus | 3 303 348 | 3 110 194 |
| Salary control account | 18 303 954 | 9 206 450 |
| Unallocated deposits received | (12 352 870) | 1 098 558 |
| Eskom bulk purchases | 124 344 983 | - |
| | **986 773 105** | **821 765 490** |

### 19. Consumer deposits

| | | |
|---|---|---|
| Electricity and water | 2 696 548 | 2 379 858 |
| Housing rental | 73 608 | 61 187 |
| | **2 770 156** | **2 441 045** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
| --- | --- | --- |

## 20. Employee benefit obligations

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

| | | |
| --- | --- | --- |
| **Carrying value** | | |
| Present value of the employee benefit obligation-wholly unfunded | (38 789 337) | (33 911 202) |
| Non-current liabilities | (31 614 994) | (27 469 984) |
| Current liabilities | (7 174 343) | (6 441 218) |
| | **(38 789 337)** | **(33 911 202)** |

**Post Employment Medical Subsidy**

The employer's post-employment health care liability consists of a commitment to pay a portion of the pensioners' post-employment medical scheme contributions. This liability is also generated in respect of dependants who are offered continued membership of the medical scheme on the death of the primary pensioner.

The liability generated by the obligation to subsidise medical contribution in retirement, for qualifying retirees and their eligible dependants, is classified as a defined benefit liability in terms of GRAP25.

In accordance with the requirements of GRAP25, the Projected Unit Credit method has been applied. The assumption underlying the funding method is that the employer's post-employment medical scheme costs in respect of an employee should be fully recognised by the time that the employee reaches fully accrued age. The valuation has been made with reference Actuarial Society of South Africa (ASSA) guidelines, in particular, the Advisory Practice Note 207, and is consistent with the requirements of GRAP25.

**Valuation assumptions**

| | | |
| --- | --- | --- |
| Discount rate | 12,17 % | 12,78 % |
| Consumer price inflation | 6,21 % | 6,85 % |
| Health Care cost inflation | 7,71 % | 8,35 % |
| Net discount rate | 4,14 % | 4,09 |

It is the relative levels of the discount rate and health care cost inflation to one another that are important, rather than the nominal values. The assumption regarding the relative levels of these two rates is our expectation of the long-term average.

GRAP25 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields (at the balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term of the obligation.

The methodology of setting the financial assumptions has been updated to be more duration specific. At the previous valuation date, 30 June 2023 the duration of liabilities was 11.22 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2024 is 12.17% per annum, and the yield on the inflation-linked bonds of a similar term was about 5.14% per annum, implying an underlying expectation of inflation of 6.21% per annum ([1 + 12.17% - 0.5%] / [1 + 5.14%] - 1).

A healthcare cost inflation rate of 7.71% was assumed. This is 1.50% in excess of the expected inflation over the expected term of the liability, consistent with the previous actuary.

However, it is the relative levels of the discount rate and healthcare inflation to one another that are important, rather than the nominal values. We have thus assumed a net discount factor of 4.14% per annum ([1 + 12.17%] / [1 + 7.71%] - 1). This year's valuation basis is therefore stronger than previous year's basis from a discount rate perspective.

| Figures in Rand | 2024 | 2023 |
|---|---|---|

## 20. Employee benefit obligations (continued)

**Demographic and decrement assumptions**

| | | |
|---|---|---|
| Normal retirement age | 65 | - |
| Fully accrued age (to take account for ill-health and early retirement decrements) | 63 | - |
| Employment age used for past service period | Actual service entry ages | Actual service entry ages |
| Age difference between spouses | 3 years | Actual ages used |
| Proportion married | 90% at retirement | Actual marital status |
| Mortality | SA85-90 (normal) | PA (90) - 2 |

**The following withdrawal assumptions were applicable over the prior and current valuation periods**

| | | |
|---|---|---|
| 20 | 24 % | 16 % |
| 25 | 18 % | 12 % |
| 30 | 15 % | 10 % |
| 35 | 10 % | 8 % |
| 40 | 6 % | 6 % |
| 45 | 4 % | 4 % |
| 50 | 2 % | 2 % |
| 55+ | - % | - % |

**Continuation percentages**

We have assumed continuation of the post-employment health care subsidy would be at 90% of active employees, or their surviving dependants

| **Accrued liability** | | |
|---|---|---|
| Active employees | 26 230 186 | 21 936 744 |
| Continuation pensioners | 6 726 719 | 6 744 789 |
| Employer's accrued liability | 32 956 905 | 28 681 533 |

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

| | | |
|---|---|---|
| Opening balance | 28 681 533 | 27 108 579 |
| Service cost | 1 901 106 | 1 873 423 |
| Interest cost | 3 616 145 | 3 284 602 |
| Actuarial (gain)/loss | (467 460) | (2 800 115) |
| Net expense recognised in income statement | 5 049 791 | 2 357 910 |
| Medical contributions subsidies for continuation pensioners | (774 419) | (784 956) |
| | **32 956 905** | **28 681 533** |

| Sensitivity analysis - medical inflation rate | 1% decrease | 2024 | 1% increase |
|---|---|---|---|
| Employer's accrued liability | 29 402 808 | 32 956 905 | 37 223 855 |
| Service cost | 1 972 550 | 2 252 981 | 2 595 817 |
| Interest cost | 3 530 600 | 3 962 811 | 4 481 976 |

| Sensitivity analysis - discount rate | 1% decrease | 2024 | 1% increase |
|---|---|---|---|
| Employer's accrued liability | 37 033 419 | 32 956 905 | 29 597 473 |
| Service Cost | 2 560 104 | 2 525 981 | 2 003 177 |
| Interest cost | 4 092 628 | 3 962 911 | 3 846 103 |

| Figures in Rand | 2024 | 2023 |
|---|---|---|

### 20. Employee benefit obligations (continued)

**Long service bonus awards**

In accordance with the requirements of GRAP25, the Projected Unit Credit method has been applied. Accrued liabilities are defined as the actuarial present value of all benefits expected to be paid in future based on service accrued to the valuation date and awards projected to retirement date. In determining these liabilities, due allowance has been made for future award increases.

The valuation has been made with reference Actuarial Society of South Africa (ASSA) guidelines, in particular, the Advisory Practice Note 207, and is consistent with the requirements of GRAP25.

**Valuation assumptions**

| | 2024 | 2023 |
|---|---|---|
| Discount rate | 9,78 % | 10,18 % |
| Consumer price inflation | 4,36 % | 5,16 % |
| Health Care cost inflation | 5,36 % | 6,16 % |
| Net discount rate | 4,20 % | 3,79 |

GRAP25 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields (at the balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term of the obligation.

The methodology of setting the financial assumptions has been updated to be more duration specific. At the previous valuation report, 30 June 2023 the duration of liabilities was 4.56 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2024 is 9.78% per annum, and the yield on inflation-linked bonds of a similar term was about 4.72% per annum. This implies an underlying expectation of inflation of 5.16% per annum ([1 + 9.78%- 0.5%] / [1 + 4.72%] - 1).

We have assumed that salary inflation would exceed general inflation by 1.00% per annum, i.e. 5.36% per annum.

However, it is the relative levels of the discount rate and salary inflation to one another that are important, rather than the nominal values. We have thus assumed a net discount factor of 4.20% per annum ([1 + 9.78%] / [1 + 5.36%] - 1).

**Promotional salary increase rates**

| | | |
|---|---|---|
| 20 | | 5 % |
| 25 | | 4 % |
| 30 | | 3 % |
| 35 | | 2 % |
| 40 | | 1 % |

**Demographic and mortality assumptions**

| | 2024 | 2023 |
|---|---|---|
| Normal retirement age | 65 | - |
| Mortality | SA85-90 | PA (90) - 2 |

**Withdrawal rate**

| | 2024 | 2023 |
|---|---|---|
| 20 | 24 % | 16 % |
| 30 | 18 % | 12 % |
| 40 | 10 % | 8 % |
| 50 | 4 % | 4 % |
| 55 | 2 % | 2 % |
| 55+ | - % | - % |

### 20. Employee benefit obligations (continued)

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

| | 2024 | 2023 |
|---|---|---|
| Opening balance | 5 229 669 | 5 110 822 |
| Service cost | 425 595 | 429 242 |
| Interest cost | 498 372 | 500 488 |
| Actuarial (gain)/loss | 141 965 | (137 615) |
| Net expense recognised in income statement | 1 065 932 | 792 115 |
| Medical contributions subsidies for continuation pensioners | (463 169) | (673 268) |
| | **5 832 432** | **5 229 669** |

| Sensitivity analysis - medical inflation rate | 1% decrease | 2024 | 1% increase |
|---|---|---|---|
| Employer's accrued liability | 6 091 332 | 5 832 432 | 5 596 112 |
| Employer's current service cost | 478 494 | 456 863 | 437 202 |
| Employer's interest cost | 472 878 | 501 588 | 527 587 |

| Sensitivity analysis - discount rate | 1% decrease | 2024 | 1% increase |
|---|---|---|---|
| Employer's accrued liability | 5 584 404 | 5 832 432 | 6 100 064 |
| Employer's current service cost | 436 230 | 456 863 | 479 225 |
| Employer's interest cost | 477 331 | 501 588 | 527 763 |

### 21. Unspent conditional grants and receipts

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

| **Unspent conditional grants and receipts** | 2024 | 2023 |
|---|---|---|
| Integrated National Electrification Programme Grant | 347 | 1 347 |
| Municipal Infrastructure Grant | 6 996 769 | 2 219 158 |
| Expanded Public Works Programme Grant | (938 000) | (625 333) |
| Local Government Financial Management Grant | (354 860) | (125 333) |
| Water Services Infrastructure Grant | (8 312 675) | (1 546 009) |
| Installation of Water Meters Grant | 1 775 727 | 1 775 727 |
| | **(832 692)** | **1 699 557** |

**Movement during the year**

| | 2024 | 2023 |
|---|---|---|
| Balance at the beginning of the year | 1 699 556 | 9 077 342 |
| Additions during the year | 87 947 709 | 68 321 269 |
| Income recognition during the year | (80 069 957) | (67 481 054) |
| Offset against Equitable share | (10 410 000) | (8 218 000) |
| | **(832 692)** | **1 699 557** |

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

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

See note 31 for reconciliation of grants from National/Provincial Government.

### 22. Provisions

**Reconciliation of provisions - 2024**

| | Opening Balance | Change in engineering priced quotations and assumptions | Effect of change in discount rate | Changes in site lives, based on more accurate statistics | Interest cost | Total |
|---|---|---|---|---|---|---|
| Environmental rehabilitation | 68 962 143 | - | - | 9 689 048 | 4 295 982 | 82 947 173 |
| Legal proceedings | 6 097 036 | - | - | - | - | 6 097 036 |
| | **75 059 179** | **-** | **-** | **9 689 048** | **4 295 982** | **89 044 209** |

**Reconciliation of provisions - 2023**

| | Opening Balance | Change in engineering priced quotations and assumptions | Effect of change in discount rate | Changes in site lives, based on more accurate statistics | Interest cost | Total |
|---|---|---|---|---|---|---|
| Environmental rehabilitation | 63 206 312 | (4 728 357) | (16 547 669) | (887 899) | 27 919 756 | 68 962 143 |
| Legal proceedings | 6 097 036 | - | - | - | - | 6 097 036 |
| | **69 303 348** | **(4 728 357)** | **(16 547 669)** | **(887 899)** | **27 919 756** | **75 059 179** |

| | | |
|---|---|---|
| Non-current liabilities | 34 688 459 | 37 835 433 |
| Current liabilities | 54 355 750 | 37 223 746 |
| | **89 044 209** | **75 059 179** |

| Figures in Rand | 2024 | 2023 |
|---|---|---|

**22. Provisions (continued)**

**Environmental rehabilitation provision**

The provision for rehabilitation of landfill sites relates to the legal obligation, in terms of the Mineral and Petroleum Resources Development Act, 2002 (Act No. 28 of 2002), whereby the municipality is required to execute the environmental management program to restore the landfill sites at Lindley, Petrus Steyn and Reitz to comply with the permit requirements.

The provision was determined by an independent expert as at 30 June 2024 and approximates the discounted expected future cash flows using reasonable estimation techniques. The discount rate used for the landfill sites is based on a bond rate that matures as close as possible to the future date of the rehabilitation. The final rehabilitation of the landfill sites are expected to be over a period of 8 years, being the estimated useful lives of landfill sites.

No uncertainties were listed in the engineer's report. The certainty and the timing of the outflow of these liabilities are uncertain and the amounts disclosed are the possible outflow amounts. The value of the provision is based on the expected future cost to rehabilitate the various sites. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which a municipality incurs as a consequence of having used the property during a particular period for landfill purposes. The municipality estimates the useful lives and makes assumptions as to the useful lives of these, assets, which influence the provision for future costs.

**Key assumptions used:**

Total area expected to be rehabilitated: 163 912 square metres (2023: 163 912 square meters).

The area to be rehabilitated can be reconciled to the different sites as follows:

| | |
|---|---|
| Lindley | 51 176 square meters |
| Petrus Steyn | 87 639 square meters |
| Reitz | 25 097 square meters |

Each of the landfill sites has adequate footprint and airspace available for the disposal of solid waste until at least 2030, except for Petrus Steyn.

The Petrus Steyn (Mamafubedu) landfill site was historically an illegal dumpsite in the center of a residential community. The site has ceased to operate. Closure works have not yet commenced despite there being a limit of 3 years for this activity to commence.

**Financial Assumptions used**

The following assumptions were used in the financial calculations for closure and post closure:

The discount rate used as at 30 June 2024 was 10.085%.

Consumer price inflation was used. The CPI rate used was 5.48%.

- The nominal and real zero curves as at 30 June 2024 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period.

Remaining Site life (as at 01 July 2024):

| | |
|---|---|
| Lindley Landfill Site | 8 years |
| Petrus Steyn Landfill Site | 6 years |

- OPES had no access to topographic surveys of the sites. Site boundaries were noted by visual inspections that were done on the day of the audits, and as per indication given by the Waste Manager of Nketoana Municipality. Landfill site life for all operational sites was determined by method A as outlined in DWA Minimum requirements 2nd edition, 1998.

| Figures in Rand | 2024 | 2023 |
|---|---|---|

### 22. Provisions (continued)

**Legal proceedings provisions**

There was judgement from a case that deemed the municipality liable against Mr Lekota and the municipality raised a provision for the expected outflow.

### 23. Service charges

| | | |
|---|---|---|
| Sale of electricity | 102 918 673 | 73 942 220 |
| Sale of water | 102 957 099 | 67 252 262 |
| Sewerage and sanitation charges | 37 358 551 | 41 904 870 |
| Refuse removal | 31 755 545 | 28 099 519 |
| | **274 989 868** | **211 198 871** |

### 24. Interest received (trading)

| | | |
|---|---|---|
| Interest received - Electricity | 5 419 589 | 3 207 210 |
| Interest received - Water | 38 802 069 | 28 418 352 |
| Interest received - Sewer and sanitation | 18 448 022 | 14 278 627 |
| Interest received - Refuse | 20 253 088 | 15 707 961 |
| Interest received - Rental and sundry | 109 568 888 | 73 789 123 |
| | **192 491 656** | **135 401 273** |

### 25. Rental of facilities and equipment

| | | |
|---|---|---|
| **Premises** | | |
| Rental of sites | 2 051 699 | 1 443 711 |
| **Facilities and equipment** | | |
| Rental of facilities | 32 803 | 27 023 |
| | **2 084 502** | **1 470 734** |

### 26. Licences and permits

| | | |
|---|---|---|
| Road and Transport | 8 513 | 50 716 |

### 27. Other income

| | | |
|---|---|---|
| Building plans and clearance certificates | 57 903 | 49 043 |
| Cemetery and burial fees | 621 115 | 640 256 |
| Handling fees (connection and disconnection) | 44 641 | 69 032 |
| Incentive discount on investments | 15 417 | - |
| Incidental cash surplus | 27 156 | 84 832 |
| Insurance claims | - | 33 930 |
| Gain on investments | 83 632 | - |
| Sale of goods | 4 348 | - |
| Tender documents | 245 001 | 470 704 |
| | **1 099 213** | **1 347 797** |

### 28. Investment revenue

| | | |
|---|---|---|
| **Interest revenue** | | |
| Bank | 931 804 | 611 381 |

# Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
|---|---|---|

### 29. Property rates

**Rates received**

| | | |
|---|---|---|
| Residential properties-Developed | 18 332 396 | 17 216 790 |

**Valuations**

| | | |
|---|---|---|
| Residential | 1 351 725 000 | 1 351 725 000 |
| Commercial | 302 450 000 | 302 450 000 |
| State | 136 610 000 | 136 610 000 |
| Municipal | 123 023 000 | 123 023 000 |
| Small holdings and farms | 5 469 449 200 | 5 469 449 200 |
| Place of worship | 25 895 000 | 25 895 000 |
| Public Service Infrastructure | 10 206 300 | 10 206 300 |
| Vacant land | 72 288 300 | 72 288 300 |
| | **7 491 646 800** | **7 491 646 800** |

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2020. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on a monthly basis with the monthly due date stipulated on the statements. Interest is levied on all overdue accounts at prime plus 5%. Collection fees differ based on the nature of the collection process.

The new general valuation was implemented on 01 July 2020.

### 30. Interest from non-exchange receivables

| | | |
|---|---|---|
| Interest - Property rates | 8 041 622 | 6 532 584 |

### 31. Government grants and subsidies

| | | |
|---|---|---|
| **Operating grants** | | |
| Equitable Share | 130 648 000 | 120 911 000 |
| Local Municipal Finance Management Grant | 2 849 860 | 2 850 000 |
| Local Government Sector Education Training Authority Grant | 724 862 | 192 319 |
| Expanded Public Works Programme Grant | 808 000 | 1 073 000 |
| | **135 030 722** | **125 026 319** |
| **Capital grants** | | |
| Municipal Infrastructure Grant | 11 770 389 | 27 669 132 |
| Regional Bulk Infrastructure Grant | 54 392 707 | 32 193 949 |
| Water Services Infrastructure Grant | 7 689 000 | 3 000 000 |
| Water Metter Installation Grant | 3 398 699 | - |
| Integrated National Electrification Programme Grant | - | 502 654 |
| | **77 250 795** | **63 365 735** |
| | **212 281 517** | **188 392 054** |

| Figures in Rand | 2024 | 2023 |
|---|---|---|

### 31. Government grants and subsidies (continued)

**Conditional and Unconditional**

Included in the above are the following grants and subsidies received:

| | | |
|---|---|---|
| Conditional grants recognised | 78 210 709 | 67 481 054 |
| Unconditional grants received | 130 625 000 | 120 911 000 |
| | **208 835 709** | **188 392 054** |

**Equitable Share**

| | | |
|---|---|---|
| Current year allocation | 130 648 000 | 120 911 000 |
| Current year receipts - recognised as revenue | (120 238 000) | (112 693 000) |
| Withheld and set-off against unspent conditional grants | (10 410 000) | (8 218 000) |
| | - | - |

Conditions still to be met - remain liabilities (see note 21).

The Equitable Share is an unconditional grant and in terms of the Constitution, it is used to subsidise the provision of basic services to indigent community members and indigents receive a monthly subsidy funded from the grant. The allocation as per the DORA for the current financial period was R130,648,000 (2023: R120,911,000).

**Local Government Sector Education Training Authority Grant**

| | | |
|---|---|---|
| Current-year receipts | 724 862 | 192 319 |
| Conditions met - transferred to revenue | (724 862) | (192 319) |
| | - | - |

Conditions still to be met - remain liabilities (see note 21).

The SETA grant funding is aimed to address skills that the sector has identified as being scarce and critical and the municipality is thus required to plan and implement training for it's employees and create training and work experience opportunities for unemployed people.

**Regional Bulk Infrastructure Grant**

| | | |
|---|---|---|
| Current-year receipts | 54 392 708 | 32 193 949 |
| Conditions met - transferred to revenue | (54 392 708) | (32 193 949) |
| | - | - |

Conditions still to be met - remain liabilities (see note 21).

RBIG is a schedule 6(b) grant and is in the form of allocations-in-kind to municipalities. The municipality received R54,392,708 (2023: R32,193,949) for qualifying project plans and expenditure.

The grant is used to develop new, refurbish, upgrade and replace ageing water and wastewater infrastructure of regional significance that connects water resources to infrastructure serving extensive areas across municipal boundaries or large regional bulk infrastructure serving numerous communities over a large area within a municipality; to pilot regional Water Conservation and Water Demand Management projects or facilitate and contribute to the implementation of local Water Conservation and Water Demand Management projects that will directly impact on bulk infrastructure requirements.

### 31. Government grants and subsidies (continued)

**Water Services Infrastructure Grant**

| | 2024 | 2023 |
|---|---|---|
| Balance unspent at beginning of year | (1 546 009) | 5 987 325 |
| Current-year receipts | 7 689 000 | 3 000 000 |
| Conditions met - transferred to revenue | (7 689 000) | (3 000 000) |
| Funds surrendered/Withheld against equitable share | (6 766 667) | (7 533 334) |
| | **(8 312 676)** | **(1 546 009)** |

Conditions still to be met - remain liabilities (see note 21).

WSIG is a schedule 5(b) grant in the form of allocations-in-kind to municipalities and is aimed to facilitate the planning and implementation of various water and sanitation projects to accelerate backlog reduction and improve the sustainability of services in prioritised district municipalities, especially in rural municipalities. Provide interim, intermediate water and sanitation supply that ensures provision of services to identified and prioritised communities, including through spring protection, drilling, testing and equipping of boreholes, provide on-site sanitation solutions, support the existing bucket eradication programme intervention in formal residential areas and support drought relief projects in affected municipalities.

**Municipal Infrastructure Grant**

| | 2024 | 2023 |
|---|---|---|
| Balance unspent at beginning of year | 2 219 158 | 1 380 290 |
| Current-year receipts | 19 648 000 | 28 508 000 |
| Conditions met - transferred to revenue | (11 770 389) | (27 669 132) |
| Funds surrendered/withheld against equitable share | (3 100 000) | - |
| | **6 996 769** | **2 219 158** |

Conditions still to be met - remain liabilities (see note 21).

To provide specific capital finance for eradication of basic municipal infrastructure backlogs for poor households, microenterprises and social institutions servicing poor communities. The allocation as per the DORA for the financial year was R19,648,000 (2023: R28,508,000) and the municipality received the full allocation.

**Expanded Public Works Programme Grant**

| | 2024 | 2023 |
|---|---|---|
| Balance unspent at beginning of year | (625 333) | - |
| Current-year receipts | 808 000 | 1 073 000 |
| Conditions met - transferred to revenue | (808 000) | (1 073 000) |
| Funds surrendered/ withheld against equitable share | (312 667) | (625 333) |
| | **(938 000)** | **(625 333)** |

Conditions still to be met - remain liabilities (see note 21).

To provide Expanded Public Works Programme (EPWP) incentive funding to expand job creation efforts in specific focus areas, where labour incentive delivery methods can be maximised. The allocation as per the DORA for the financial period was R808,000 (2023: R1,073,000) and the municipality received the full allocation.

**Installation of Water Meter Grant**

| | 2024 | 2023 |
|---|---|---|
| Balance unspent at beginning of year | 1 775 727 | 1 775 727 |
| Current-year receipts | 2 000 000 | - |
| Conditions met - transferred to revenue | (3 398 699) | - |
| | **377 028** | **1 775 727** |

Conditions still to be met - remain liabilities (see note 21).

| Figures in Rand | 2024 | 2023 |
|---|---|---|

### 31. Government grants and subsidies (continued)

**Integrated National Electrification Programme Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 1 347 | - |
| Current-year receipts | - | 504 000 |
| Conditions met - transferred to revenue | - | (502 653) |
| Funds surrendered/ withheld against equitable share | (1 000) | - |
| | **347** | **1 347** |

Conditions still to be met - remain liabilities (see note 21).

**Local Municipal Finance Management Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | (125 333) | (66 000) |
| Current-year receipts | 2 850 000 | 2 850 000 |
| Conditions met - transferred to revenue | (2 849 860) | (2 850 000) |
| Funds surrendered/ withheld against equitable share | (229 667) | (59 333) |
| | **(354 860)** | **(125 333)** |

Conditions still to be met - remain liabilities (see note 21).

The grant is to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA). The allocation as per the DORA for the financial period was R2,850,000 (2023: R 2,850,000) and the municipality received and utilised the allocation.

**Changes in level of government grants**

Based on the allocations set out in the Division of Revenue Act, (Act 3 of 2017), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

### 32. In-Kind Revenue

| | | |
|---|---|---|
| Audit Fees Paid by Provincial Treasury | 6 817 100 | 1 669 842 |
| Donation - Property, plant and equipment | 46 239 | - |
| | **6 863 339** | **1 669 842** |

R6,817,100 (2023:R1, 669,842) was paid on behalf of the municipality, by Provincial Treasury. This payment relates to the 1% allocation.

An amount of R46,239 pertains to a donation received for movable assets.

### 33. Fines, Penalties and Forfeits

| | | |
|---|---|---|
| Traffic Fines | 129 320 | 309 800 |
| Building Fines | 340 811 | 134 450 |
| | **470 131** | **444 250** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
|---|---|---|

### 34. Employee related costs

| | | |
|---|---|---|
| Basic salary | 105 870 901 | 93 050 645 |
| Bonus | 7 308 330 | 7 076 643 |
| Acting allowances | 2 574 597 | 2 958 917 |
| Employee benefits plans | - | 360 363 |
| Housing benefits and allowances | 1 470 797 | 1 493 613 |
| Leave pay and bonus provision | 5 090 496 | - |
| Medical aid - company contributions | 4 453 150 | 3 335 107 |
| Overtime payments | 12 262 939 | 8 678 319 |
| Pension | 18 887 148 | 17 219 320 |
| SALGA contributions | 63 250 | 61 474 |
| Employee benefit obligation | 1 089 113 | 405 665 |
| Skills development levy | 1 414 438 | 1 724 831 |
| Standby allowances | 2 220 413 | 1 983 526 |
| Telephone and other allowances | 1 901 660 | 1 691 000 |
| Travel allowances | 9 532 316 | 8 100 640 |
| UIF | 1 016 214 | 925 084 |
| WCA | 30 033 | 44 390 |
| | **175 185 795** | **149 109 537** |

### 35. Remuneration of councillors

| | | |
|---|---|---|
| Council salaries | 5 818 902 | 5 618 137 |

**Additional information**

The Mayor and Speaker are full-time employees of the Municipality. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor has access to the use of Council owned vehicles for official duties.

Councillor remuneration is in line with the upper limits that is Gazetted by the Department of Cooperative Governance and the framework envisaged in section 219 of the Constitution and any excess has been included and disclosed as irregular expenditure.

No performance bonuses were paid to Councillors in the current or prior year. All bonuses refer to the structuring of remuneration based on individual requests.

### 36. Depreciation and amortisation

| | | |
|---|---|---|
| Property, plant and equipment | 65 672 144 | 55 245 092 |

### 37. Finance costs

| | | |
|---|---|---|
| Current borrowings | 489 738 | 1 120 952 |
| Employee benefits obligation | 4 114 517 | 3 785 090 |
| Trade and other payables | 32 929 885 | 44 611 049 |
| Late payment of VAT | 182 342 | - |
| Landfill site provision | 4 295 982 | 6 466 831 |
| | **42 012 464** | **55 983 922** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
|---|---|---|

### 38. Lease rentals on operating lease

| | | |
|---|---|---|
| **Motor vehicles** | | |
| Contractual amounts | 4 218 578 | 3 288 285 |
| **Equipment** | | |
| Contractual amounts | 48 573 | 3 702 |
| | **4 267 151** | **3 291 987** |

### 39. Debt impairment

| | | |
|---|---|---|
| Contribution to Traffic Fines bad debt Impairment | 77 390 | 338 950 |
| Contributions to debt impairment provision | 90 577 491 | 653 491 994 |
| Bad debts written-off | 145 545 944 | - |
| | **236 200 825** | **653 830 944** |

### 40. Repairs and maintenance

| | | |
|---|---|---|
| Repairs and maintenance | 10 854 275 | 3 727 987 |

### 41. Bulk purchases

| | | |
|---|---|---|
| Electricity - Eskom | 99 260 532 | 76 472 953 |
| Water | - | 369 591 |
| | **99 260 532** | **76 842 544** |

### 42. Contracted services

| | | |
|---|---|---|
| **Outsourced Services** | | |
| Fleet Services | 629 000 | 571 401 |
| **Consultants and Professional Services** | | |
| IT Services and Financial Information Systems | 3 904 051 | 71 087 |
| Legal and Financial Consulting Services | 22 756 488 | 15 601 570 |
| **Contractors** | | |
| Specialist Services | 9 918 | 378 114 |
| | **27 299 457** | **16 622 172** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
| --- | --- | --- |

## 43. General expenses

| | | |
| --- | --- | --- |
| Advertising | 165 391 | 298 659 |
| Auditors remuneration | 9 910 227 | 11 543 071 |
| Bank charges | 626 601 | 734 071 |
| Bursaries | 173 546 | (32 600) |
| Commission paid | 992 064 | 952 802 |
| Conferences, seminars and public events | 333 556 | 36 531 |
| Consumables | 11 021 193 | 16 650 042 |
| Entertainment | 123 | - |
| Loss on shareholders loan | 219 531 | - |
| Fines and penalties | - | 1 520 728 |
| Fleet | 77 911 | 2 417 801 |
| Fuel and oil | 142 955 | 2 470 676 |
| Hire of plant and equipment | 3 094 979 | 16 210 140 |
| Insurance | 2 064 683 | 631 229 |
| Licences | 1 715 162 | 4 849 311 |
| Other expenses | - | 787 |
| Postage and courier | - | (2 604) |
| Printing and stationery | 793 531 | 278 118 |
| VAT Penalties | 853 342 | - |
| Security | 1 696 | - |
| Employee Wellness | 25 000 | - |
| Subscriptions and membership fees | 28 516 | 1 711 764 |
| Telephone and fax | 708 | 14 987 |
| Training | 551 231 | 282 087 |
| Travel - local | 1 117 860 | 3 528 287 |
| Uniforms | - | 86 580 |
| Utilities | 29 477 114 | 9 092 461 |
| | **63 386 920** | **73 274 928** |

## 44. Fair value adjustments

| | | |
| --- | --- | --- |
| Investment property (Fair value model) | (19 065 814) | 7 512 797 |

## 45. Gains or losses on biological assets

| | | |
| --- | --- | --- |
| Gains or losses arising from a change in fair value less point of sale costs | (64 179) | 22 027 |

## 46. Impairment loss

**Impairments**

| | | |
| --- | --- | --- |
| Property, plant and equipment | 21 267 798 | 16 899 486 |

During the annual asset verification process assets were identified that were damaged or not working as intended.

The main classes of assets affected by impairment losses are:

Infrastructure assets

Other property, plant and equipment

Buildings

## 47. Auditors' remuneration

| | | |
| --- | --- | --- |
| Fees | 9 910 227 | 11 543 071 |

| Figures in Rand | 2024 | 2023 |
| --- | --- | --- |

### 48. Cash generated from operations

| | | |
| --- | --- | --- |
| Deficit | (58 497 179) | (535 637 890) |
| **Adjustments for:** | | |
| Depreciation and amortisation | 65 672 144 | 104 777 066 |
| Fair value adjustments | 19 065 814 | (6 940 229) |
| Finance costs | 489 738 | 3 020 000 |
| Impairment loss | 21 267 798 | 21 311 679 |
| Debt impairment | 236 200 824 | 736 324 723 |
| Service costs | - | 1 897 000 |
| Movements in provisions | 13 985 030 | 5 755 831 |
| Gain on sale of assets and liabilities | 6 060 979 | - |
| Contributions paid | - | (328 637) |
| Other receivables | 7 980 336 | - |
| Other non-cash movements in PPE | (46 239) | (148 259 756) |
| Loss/(Gain) on Biological assets | 64 179 | - |
| Movement in employee benefits | 4 878 135 | (5 026 038) |
| Other non-cash movements | (36 860 792) | - |
| **Changes in working capital:** | | |
| Inventories | 91 635 | (991 593) |
| Other receivables | (6 519) | - |
| Receivables from exchange transactions | (9 493 069) | (179 814 806) |
| Receivables from non-exchange transactions | (338 181 215) | (12 798 312) |
| Statutory receivables | - | 517 824 |
| Prepayments | (1 139 041) | - |
| Other asset 3 | - | 338 950 |
| Payables from exchange transactions | 165 007 614 | 158 324 251 |
| VAT | 2 944 480 | (9 290 055) |
| Unspent conditional grants and receipts | - | (7 377 785) |
| Movement in consumer deposits | (2 532 249) | 291 319 |
| Consumer deposits | 329 111 | (174 464) |
| Other non-cash items | - | (53 730 899) |
| Other financial liabilities | - | (191 634) |
| | **97 281 514** | **71 996 545** |

### 49. Commitments

**Authorised capital expenditure**

| | | |
| --- | --- | --- |
| **Already contracted for but not provided for** | | |
| • Property, plant and equipment | 98 443 573 | 162 501 610 |
| **Total capital commitments** | | |
| Already contracted for but not provided for | 98 443 573 | 162 501 610 |

This committed expenditure related to property, plant and equipment will be financed by:

Municipal Infrastructure Grant
Regional Bulk Infrastructure Grant
Water Services Infrastructure Grant

### 50. Contingencies

**Contingent Liabilities**

**Litigations**

| Figures in Rand | 2024 | 2023 |
|---|---|---|
| **50. Contingencies (continued)** | | |
| Eskom: | 500 000 000 | 500 000 000 |
| Nketoana Local Municipality obtained an interdict against Eskom not to cut the power. The account is being disputed. Excess of R500,000,000. | | |
| Lekota (Pty) Ltd: | 388 695 | 810 000 |
| This case was settled within the current financial year. The municipality was found liable for damages amounting to R700 00, in addition of taxation cost of R388 695.37. The payments for the R700 000 was settled within the current financial year. | | |
| N and C Maintenance and Spares (Pty) Ltd: | 484 259 | 484 259 |
| Litigation is in process against the municipality relating to a dispute with N and C Maintenance and Spares (Pty) Ltd for claim relating to repair and/ or supply of water plant equipment. The claim amount is R 484 258,54 | | |
| Bila Mashamba Attorneys: | - | 800 000 |
| The matter was resolved in the current financial year. The parties reached a settlement agreement. An amount of R432 500 (VAT inclusive) was paid to Bila Mashamba Attorneys. | | |
| Sefantsi: | - | 300 000 |
| The litigation against the municipality concerning the decision to appoint the municipal manager has been withdrawn during the current financial year. | | |
| Telkom SA SOC LTD: | - | 143 801 |
| Telkom SA Soc Ltd withdrew their claim against the 1st,3rd and 4th Defendants (Nketoana) due to a valid defence in law. Due to the withdrawal of the claim Nketoana Local Municipality was not liable to pay anything. | | |
| Blueberry Trading CC & 1 other: | 400 000 | 400 000 |
| Claim for damages resulting from a field fire was instituted against Nketoana Local Municipality. | | |
| FCC Van Tonder: | - | 287 742 |
| Action that was taken against Nketoana Local Municipality for damages resulting from a field fire was resolved in the current financial year. | | |
| Selacor Investment: | - | 1 221 864 |
| A claim was filed for unpaid services rendered. The matter was resolved within the current financial year, and the outstanding amount was settled during the same period. | | |
| Rantoa Services Providers CC: | 2 400 000 | 2 400 000 |
| Claim for services rendered and not paid. Summons was issued against Nketoana Local Municipality (Plant Hire & Pipeline). | | |
| Getto-Fabulous | - | 4 083 734 |
| Claims for unpaid services rendered have been resolved in the current financial year. | | |

| Figures in Rand | 2024 | 2023 |
|---|---|---|

### 50. Contingencies (continued)

| | | |
|---|---|---|
| AGSA | - | 5 854 177 |

Claims for unpaid services rendered have been resolved in the current financial year.

| | | |
|---|---|---|
| Siswa Trading Projects CC | - | 6 986 782 |

Claims for unpaid services rendered have been resolved in the current financial year.

| | | |
|---|---|---|
| Siswa Trading Projects CC | - | 3 485 835 |

Second claim for services rendered and not paid have been resolved in the current financial year.

| | | |
|---|---|---|
| Phatsoane Henny Attorneys Inc: | - | 600 976 |

Second claim for services rendered and not paid have been resolved in the current financial year.

| | | |
|---|---|---|
| Makubu | 400 000 | 400 000 |

Labour dispute with regards to recession of appointment of CFO.

| | | |
|---|---|---|
| Bila Mashamba Attorneys | 800 000 | 800 000 |

Litigation pending. Plaintiff needs to tax their legal account before Nketoana Local Municipality is liable to pay.

| | | |
|---|---|---|
| Expansion of the Reitz water treatment works holding dam | 325 000 | 400 000 |

Awaiting the outcome of our legal appeal in terms of s24(g).

| | | |
|---|---|---|
| Coxinell IPP (Pty) Ltd | 3 808 000 | - |

Nketoana Local Municipality filed its Notice of Intention to defend in this matter. The claim amount against the Municipality is R3 808 000.

| | | |
|---|---|---|
| Siswa Trading Projects CC | 1 863 151 | - |

The Plaintiff in this matter, issued summons against Nketoana Local Municipality. Nketoana Local Municipality filed its Notice of Intention to defend and raised an exception. Litigation is in process against the municipality for services rendered and not paid. The claim amount is R1 863 150.55.

| | | |
|---|---|---|
| PK Financial Consultants | 821 189 | - |

PK Financial Consultants issued summons againts the Municipality for services rendered in the amount of R821 189.14 and R71 082.82 in the alternative.

| | | |
|---|---|---|
| Rantoa Service Providers CC | 1 200 000 | - |

Rantoa initiated action against Nketoana Local Municipality for services rendered to the amount of R1 001 948 based on alleged lease agreements.

| | | |
|---|---|---|
| Rantoa Service Providers CC | 1 200 000 | - |

Rantoa brought action against Nketoana Local Municipality for services rendered under a tender appointment.

## Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
| --- | --- | --- |
| **50. Contingencies (continued)** | | |
| Civil Elements (Pty) Ltd | 5 780 079 | - |
| Civil Elements (Pty) Ltd has initiated legal action against Nketoana Local Municipality for failing to adhere to the agreed payment arrangements. | | |
| | **519 870 373** | **529 459 170** |

### 51. Related parties

| Relationships | |
| --- | --- |
| Accounting Officers | Mokete Nhlapo |
| Councillors and Controlled Entities | LG Nhlapo (None)<br>MP Motolo (None)<br>MT Mokoena (Mayor)(None)<br>M Blignaut (M Blignaut Boerdery; NG Welsyn Reitz-tehuis;NG Welsyn Reitz Wooneenhede)<br>PP Mofokeng (Nketoana Women Primary Co-Operative Limited)<br>BM Nhlapo (Ibutho Multi-Purpose Co-Operative Limited)<br>TE Mokoena (None)<br>HMC Muller (None)<br>DI Mofokeng (None)<br>K Mofokeng (None)<br>MA Mabaso (None)<br>PP Dlamini (None)<br>ME Mosia (Sohlasonke Construction;Phuthanang Catering; Sanaco Phutang Secondary Co-Operative Limited; South African Social Service Tertiary Co-Operative Limited)<br>A Smith (None)<br>ML Bosman (None)<br>LF Miya (None)<br>KL Molakeng (None) |
| Members of key management | JL Makubu (Eclipse Investment Holdings)<br>SM Nhlapo (None)<br>JM Makheo (None)<br>SM Letsela (Moelet Group) |
| Directors | JL Makubu (Eclipse Investment Holdings)<br>M Mahamotsa (None)<br>SM Letsela (Moelet Group)<br>SM Nhlapo (None)<br>LE Motaung (None) |

### 51. Related parties (continued)

**Remuneration of management**

**Management class: Councillors**

**2024**

| Name | Basic salary | Travel, Cell phone, Oversight Allowance | Contributions to UIF, medical aid & pension fund | Total |
|---|---|---|---|---|
| Mr LG Nhlapo | 371 524 | 146 718 | 60 220 | 578 463 |
| Mr MP Motolo | 339 810 | 27 419 | 3 213 | 370 442 |
| Mrs MT Mokoena (Mayor) | 910 459 | 307 189 | 147 044 | 1 364 692 |
| Mr M Blignaut | 380 946 | 159 408 | 63 258 | 603 613 |
| Mr PP Mofokeng (Chief Whip) | 380 946 | 142 248 | 61 666 | 584 860 |
| Mrs BM Nhlapo (Speaker) | 708 368 | 510 035 | 176 031 | 1 394 434 |
| Mr TE Mokoena | 288 127 | 65 716 | 46 361 | 400 204 |
| Mrs HMC Muller | 288 126 | 65 716 | 46 361 | 400 203 |
| Mr DI Mofokeng | 231 371 | 133 823 | 37 903 | 403 097 |
| Mr K Mofokeng | 288 126 | 65 716 | 46 497 | 400 339 |
| Miss MA Mabaso | 288 126 | 66 867 | 46 497 | 401 490 |
| Mr PP Dlamini | 288 126 | 65 716 | 47 914 | 401 756 |
| Mr K Mofokeng | 288 126 | 65 716 | 47 914 | 401 756 |
| Mrs ME Mosia | 288 126 | 65 716 | 47 914 | 401 756 |
| Mrs A Smit | 226 948 | 104 216 | 42 115 | 373 279 |
| Miss ML Bosman | 288 126 | 65 716 | 47 914 | 401 756 |
| Mr LF Miya | 288 126 | 65 716 | 47 914 | 401 756 |
| Ms KL Molakeng | 288 126 | 65 716 | 89 580 | 443 422 |
| | **6 431 633** | **2 189 367** | **1 106 316** | **9 727 318** |

**51. Related parties (continued)**

**2023**

| Name | Basic salary | Travel, Cell phone, Oversight Allowance | Contributions to UIF, medical aid & pension fund | Total |
|---|---|---|---|---|
| Mr LG Nhlapo | 360 193 | 134 448 | 53 442 | 548 083 |
| Mr LJ Mofokeng | 272 430 | 44 400 | 2 550 | 319 380 |
| Mrs MT Mokoena (Mayor) | 860 859 | 271 719 | 127 159 | 1 259 737 |
| Mr M Blignaut | 360 193 | 134 448 | 53 442 | 548 083 |
| Mr PP Mofokeng (Chief Whip) | 360 193 | 121 432 | 53 281 | 534 906 |
| Mrs BM Nhlapo (Speaker) | 568 688 | 359 433 | 113 094 | 1 041 215 |
| Mr TE Mokoena | 272 430 | 120 053 | 39 332 | 431 815 |
| Mrs HMC Muller | 272 430 | 44 400 | 39 312 | 356 142 |
| Mr DI Mofokeng | 272 430 | 113 817 | 39 811 | 426 058 |
| Mr K Mofokeng | 272 430 | 33 300 | 39 309 | 345 039 |
| Miss MA Mabaso | 272 430 | 33 300 | 39 309 | 345 039 |
| Mr PP Dlamini | 272 430 | 44 400 | 39 420 | 356 250 |
| Mr K Mofokeng | 272 430 | 44 400 | 39 420 | 356 250 |
| Mrs ME Mosia | 272 430 | 44 400 | 39 420 | 356 250 |
| Mrs A Smit | 272 430 | 44 400 | 39 420 | 356 250 |
| Miss ML Bosman | 272 430 | 44 400 | 39 420 | 356 250 |
| Mr LF Miya | 272 430 | 44 900 | 39 420 | 356 750 |
| Ms KL Molakeng | 249 728 | 37 000 | 36 345 | 323 073 |
| | **6 029 014** | **1 714 650** | **872 906** | **8 616 570** |

**Additional information**

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

**51. Related parties (continued)**

**Management class: Executive management**

**2024**

| Name | Basic salary | Other Allowances | Total |
|---|---|---|---|
| Municipal Manager | 1 273 590 | 100 386 | 1 373 976 |
| Chief Financial Officer | 940 943 | 272 328 | 1 213 271 |
| Director Technical Services | 232 900 | 95 793 | 328 693 |
| Director Community Services | 329 625 | 70 129 | 399 754 |
| Director LED | 937 198 | 184 003 | 1 121 201 |
| Director Corporate Services | 297 125 | 132 606 | 429 731 |
| | **4 011 381** | **855 245** | **4 866 626** |

**2023**

| Name | Basic salary | Bonus and performance related payments | Pension and Medical Aid | Other Allowances | Acting allowance | Total |
|---|---|---|---|---|---|---|
| Municipal Manager - Mr. SM Nhlapo | 621 298 | - | - | 41 255 | 92 012 | 754 565 |
| Municipal Manager - Mr.Sefantsi | 264 159 | 27 859 | 30 747 | 83 993 | - | 406 758 |
| Chief Financial Officer | 652 986 | - | - | 83 993 | - | 736 979 |
| Director Technical Services | 596 344 | 90 000 | 247 654 | 4 499 | - | 938 497 |
| Director Community Services | 381 250 | - | - | 240 146 | - | 621 396 |
| Director LED | 519 234 | - | - | 41 443 | - | 560 677 |
| Director Corporate Services | 470 295 | - | - | 211 295 | - | 681 590 |
| | **3 505 566** | **117 859** | **278 401** | **706 624** | **92 012** | **4 700 462** |

No performance bonuses were paid to Executive Directors in the current or prior year. All bonuses refer to salary structuring based on individual requests.

| Figures in Rand | 2024 | 2023 |
| --- | --- | --- |

### 52. Going concern

We draw attention to the fact that at 30 June 2024 the municipality had an accumulated surplus (deficit) of R 643,041,299 and that the municipality's total assets exceed its liabilities by R 643,041,299.

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the municipality is funded by national government through division of revenue and that the accounting officer continues to implement other revenue enhancement and debt recovery strategies.

The following significant indicators indicates that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern ability, evident as per the statement of financial performance and statement of financial position. These uncertainties cast significant doubt regarding the going concern of the municipality as of 30 June 2024 and thus management have assessed and disclosed these on herewith:

The municipality experienced significant cashflow constraints throughout the financial period ended 30 June 2024 and the bank balances at year end is indicative of the depleted cash reserves.

The municipality incurred a significant operating deficit of R58,497,179 (2023 R535,637,890).

The municipality's current liabilities exceed its current assets by a significant value of R 386,300,069 (2023 R313,619,100) and creditors were not paid within 30 days as legislated.

The municipality has legal claims against them amounting to R519,870,373 (2023 R529,459,170). Refer to note 50 for details.

The municipality's cash at hand and bank balances does not cover its creditors when they fall due. The municipality owes Eskom a significant amount of R787,206,005 as of 30 June 2024 and has no debt payment agreement/arrangement.

The municipality has significant contingent liabilities which could severely impact the municipality's cash outflows should the alleged actions become successful.

Management has prepared a projected 12-month cashflow forecast and budget for the 2025 financial period has been prepared and the forecasts indicates that the municipality will be able to generate adequate cashflows to cover the short term liabilities and obligations as they arise but could possibly be in an overdraft position at the end of the 2025 financial period.

After the management has identified indicators and performed assessment and evaluation, the annual financial statements are prepared on a going concern basis as the municipality will likely continue operations.

Further to the going concern assessment that has been performed, the municipality has confidence that the short term financial situation will turn around through the funding plan the has been adopted by Council.

1. *Reduction in non-core expenditure:*

Identify and list non-core expenditure:
- Finance costs
- Legal fees
- Consulting fees

Reduce non-core expenditure by at least 50 percent as follows:
- FY 2024/25 – 30 per cent
- FY 2025/26 – 20 per cent

Consulting and Professional fees:

Decreasing the scope of consultants – The municipality has started to reduce the scope of consultants (AFS, FAR, VAT, legal) and also focus on a transfer of skills from consultants to officials during the remaining contractual terms. This will capacitate officials and reduce non-core expenditure.

### 52. Going concern (continued)

Not renewing contracts – Where necessary skills are already with officials and consultant contracts close to expiry, the municipality will not renew contracts and rely on its own resources.

Filling vacancies in critical areas – Where consultants are performing tasks left undone by the municipality due to vacancies the municipality will first fill vacancies; then start with capacitation/skills transfer as the consultant scope is reduced; and finally allow contracts to expire without renewal.

Conferences and Seminars:

COVID-19 also caused a reduction in these non-core expenses and the municipality aims to keep these fees as low as possible and within the cost-containment policy.

2. *Addressing Trade Payables:*

Eskom credit - The approved debt relief application will allow the municipality to reduce finance charges significantly as the main contributor was the overdue ESKOM account and the related costs.

Other creditors – Making arrangements with creditors to make interval payments, so as to manage the cash flow.

3. *Revenue Enhancement:*

The approved Council Revenue Enhancement Strategy/Plan is to be revised and implemented. The said plan is aimed at recovery of expenditure; the recovery of non-core expenditure from the party creating such expenditure and thus preventing cross-subsidizing of these expenditures by other residents (especially the poor); protection of assets to reduce maintenance and depreciation costs; an increase in the limited revenue base of the municipality; ensuring a healthy and safe environment for all residents also with the intention to create better relationships and a culture of paying for services. The said plan includes, but is not limited to, aspects such as:

- Performing site audits by service departments to ensure that the monthly billing is in accordance with the services rendered (including businesses in residential areas, renting of rooms, guesthouses, additional units erected, etc.) and the legality of these alterations;

- Health and safety audits to ensure that traffic/health laws are obeyed; trucks are limited to approved roads and entrances; removal of heavy vehicles overnight in town; animals in residential areas are removed; sport and other facilities are controlled and paid for, etc.;

- Installing of pre-paid water meters with the possibility of reduced rates for those occupants, also aimed at sites where no water meters are currently installed.

- Finalizing of the legal processes with the assistance of the newly appointed Legal Manager to get the legal processes on outstanding debt re-activated;

- Ensuring monthly meter readings for the correctness of billings and statistical information for management and performance processes;

- Ensuring that lease agreements are drawn up and /or renewed on all properties of the municipality;

- Follow up site audits on random sites to ensure the site usages of services remain within the approved and billed services;

- Frequent audits on lists supplied by the Finance Department where variations occur on metered usages;

- Increased consultation with the community via Ward Councilors on legal requirements of service delivery; etc.

# Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
|---|---|---|

### 53. Unauthorised expenditure

| | | |
|---|---|---|
| Opening balance as previously reported | 980 785 456 | 810 658 560 |
| **Opening balance as restated** | **980 785 456** | **810 658 560** |
| Add: Expenditure identified - current | 471 630 964 | 170 126 896 |
| Less: Amount Written Off | (446 217 404) | - |
| **Closing balance** | **1 006 199 016** | **980 785 456** |

The unauthorised expenditure was incurred because of the overspending of the budget and overspending in municipal votes (main divisions in the budget). The overspending was driven by the fact that the municipality operates with an unfunded budget and that non-cash items were not properly budgeted for (due to repeated audit qualifications on non-cash estimates and calculations).

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

| | | |
|---|---|---|
| Community and Social services | 4 453 174 | - |
| Electricity | 253 712 225 | 5 249 521 |
| Executive and Council | 11 443 325 | - |
| Finance and administration | 5 403 888 | 78 386 809 |
| Housing | 927 432 | 331 508 |
| Roads transport | - | 22 512 677 |
| Waste management | 95 098 195 | 19 685 307 |
| Waste water | 159 820 | 4 824 048 |
| Water | 100 135 419 | 39 137 026 |
| Other | 297 486 | - |
| | **471 630 964** | **170 126 896** |

**Recoverability of unauthorised expenditure**

No investigations in terms of Section 32 of MFMA were finalised during the current financial year.

### 54. Fruitless and wasteful expenditure

| | | |
|---|---|---|
| Opening balance as previously reported | 196 920 174 | 149 264 976 |
| **Opening balance as restated** | **196 920 174** | **149 264 976** |
| Add: Expenditure identified - current | 37 592 703 | 47 655 198 |
| Less: Amount written off - Council | (90 816 122) | - |
| Less: Amount written off - Eskom debt relief | (14 399 682) | - |
| **Closing balance** | **129 297 073** | **196 920 174** |

The current year fruitless and wasteful expenditure relates to interest and penalties on overdue submissions and accounts.

### 55. Irregular expenditure

| | | |
|---|---|---|
| Opening balance as previously reported | 479 930 270 | 426 883 446 |
| **Opening balance as restated** | **479 930 270** | **426 883 446** |
| Add: Irregular Expenditure - current | 69 057 004 | 53 046 824 |
| **Closing balance** | **548 987 274** | **479 930 270** |

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

| | | |
|---|---|---|
| Non-compliance with SCM regulations | 69 057 004 | 53 046 824 |

**Recoverability steps taken/criminal proceedings**

Irregular expenditure is disclosed inclusive of VAT.

# Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
|---|---|---|

### 56. Deviation from supply chain management regulations

| | | |
|---|---|---|
| Non-compliance with SCM regulations | 2 282 410 | 1 270 224 |

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

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

Goods and services were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

The following are the deviation amounts and reasons:

Emergency deviation R450 000 (2023: R220 800).
Sole Supplier Situation R862 500 (2023: R0)
Exceptional Cases R969 910 (2023:R1 049 424)

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

**Contributions to organised local government**

| | | |
|---|---|---|
| Opening balance | 4 384 550 | 4 285 825 |
| Current year subscription / fee | 1 782 425 | 1 691 020 |
| Amount paid - current year | - | (1 600 000) |
| Adjustment | - | 7 705 |
| | **6 166 975** | **4 384 550** |

Contributions to organised local government consist of annual subscriptions paid to SALGA.

**Material distribution losses**

| | | |
|---|---|---|
| Electricity | 14 146 368 | 24 566 600 |
| Water | 5 621 241 | 8 480 129 |
| | **19 767 609** | **33 046 729** |

**Distribution losses - Water**
The water losses are mainly due to metering inefficiencies, burst pipes and leaks in the reticulation network. In the current year the water losses were 20.34% (2023: 21.13%).

| | | |
|---|---|---|
| Kl - units | 693 058 | 727 284 |
| Percentage | 20,34 % | 21,13 % |

| Figures in Rand | 2024 | 2023 |
| --- | --- | --- |

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

**Distribution losses - Electricity**
In the current year the energy losses were 10.11% (2023: 32.12%) and the losses were as a result of theft, vandalism, faulty meters and variances in monthly consumption estimates. Management has determined that these losses are not recoverable.

| | | |
| --- | --- | --- |
| kWh - units | 5 658 547 | 15 944 423 |
| Percentage | 10,11 % | 32,12 % |

The electricity distribution loss comprises of technical and non-technical losses. The annual electricity distribution losses are made up of technical and non-technical losses which are the difference between electricity purchased and electricity sold.

**Non-technical losses:**
Non-technical losses are amongst others the result of administrative and technical errors, negligence, theft of electricity, tampering with meters and connections which form part of illegal consumption, faulty meters, etc.

**Technical losses:**
Technical losses are the result of electricity losses while being distributed from the source of generation through the transmission and distribution network to the final consumer. Technical losses are inherent to the supply of electricity via lines and is further affected by the condition and age of the network, the weather conditions and load on the system. The wires (copper or aluminium) being used to distribute electricity has certain resistance which resist the throughput of current, as a result there is a certain portion of electricity that is lost due to distribution.

**Audit fees**

| | | |
| --- | --- | --- |
| Opening balance | 9 551 629 | 6 653 785 |
| Current year fees and interest | 10 556 508 | 15 497 547 |
| Amount paid - current year | (11 817 099) | (9 078 480) |
| Amount paid - previous years | (4 000 000) | - |
| Adjustments | (4 976 432) | (3 521 223) |
| | **(685 394)** | **9 551 629** |

Included in the above reconciliation is an amount of R6,817,100 (2023: R1,669,842) that was paid on behalf of the municipality, by the Provincial Treasury. This payment relates to the 1% allocation.

**PAYE and UIF**

| | | |
| --- | --- | --- |
| Opening balance | 5 507 111 | 11 125 135 |
| Current year deductions | 20 854 776 | 18 375 227 |
| Amount paid - current year | (24 016 323) | (23 993 251) |
| | **2 345 564** | **5 507 111** |

**Pension and Medical Aid Deductions**

| | | |
| --- | --- | --- |
| Opening balance | 8 188 156 | 8 862 579 |
| Current year deductions | 35 591 213 | 31 631 963 |
| Amount paid - current year | (36 083 544) | (32 306 386) |
| | **7 695 825** | **8 188 156** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
|---|---|---|

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

### VAT

| | | |
|---|---|---|
| VAT receivable | 27 221 412 | 30 165 892 |

VAT is receivable and payable on the receipts and payment basis. Only once payment is received from debtors, VAT is paid to SARS. The amount presented in this note includes VAT accounted for on the accrual basis and therefore not yet payable to the municipality (by SARS). The VAT receivable/(payable) on cash basis is (R 0) (2023: R0).

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

### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2024:

| 30 June 2024 | Outstanding less than 90 days R | Outstanding more than 90 days R | Total R |
|---|---|---|---|
| Councillor Makgwakgweng T | - | 8 000 | 8 000 |

| 30 June 2023 | Outstanding less than 90 days R | Outstanding more than 90 days R | Total R |
|---|---|---|---|
| Councillor Makgwakgweng T | - | 7 825 | 7 825 |

### Investments as at the end of the financial year

The municipality had the following investments as at the end of the financial year

| | | |
|---|---|---|
| **Summary of all investments** | | |
| ABSA - Account Number 9074155973 | 1 463 131 | 70 711 |
| Call account | | |
| Other financial assets | 1 766 973 | 1 778 565 |
| Other financial assets includes shares held at VKB Agricultural (Pty) Ltd and other bonds as disclosed in note 4. | | |
| | **3 230 104** | **1 849 276** |

### Non-compliance with the Municipal Finance Management Act

Instances of non-compliance with the MFMA and related regulations occurred and were identified during the year and include among others:

Non-compliance with SCM Regulations that resulted in Irregular expenditure reported these annual financial statements.
Monies owed by the municipality was not always paid within 30 days as required by section 65(2)(e) of the MFMA.

Unauthorised, Irregular, Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.

The municipality has not prepared a funded budget as required in terms of the MFMA and regulations.

### 58. Financial instruments disclosure

**Categories of financial instruments**

**2024**

**Financial assets**

| | At amortised cost | Total |
|---|---|---|
| Other financial assets | 1 766 973 | 1 766 973 |
| Receivables from exchange transactions | 544 872 051 | 544 872 051 |
| Deposits | 4 551 261 | 4 551 261 |
| Cash and cash equivalents | 8 320 089 | 8 320 089 |
| | **559 510 374** | **559 510 374** |

**Financial liabilities**

| | At amortised cost | Total |
|---|---|---|
| Borrowings | 4 607 335 | 4 607 335 |
| Trade and other payables from exchange transactions | 956 502 828 | 956 502 828 |
| Consumer deposits | 2 770 156 | 2 770 156 |
| | **963 880 319** | **963 880 319** |

**2023**

**Financial assets**

| | At amortised cost | Total |
|---|---|---|
| Other financial assets | 1 778 565 | 1 778 565 |
| Receivables from exchange transactions | 441 446 980 | 441 446 980 |
| Deposits | 4 272 987 | 4 272 987 |
| Cash and cash equivalents | 1 574 547 | 1 574 547 |
| | **449 073 079** | **449 073 079** |

**Financial liabilities**

| | At amortised cost | Total |
|---|---|---|
| Borrowings | 4 117 597 | 4 117 597 |
| Trade and other payables from exchange transactions | 821 765 490 | 821 765 490 |
| Consumer deposits | 2 441 045 | 2 441 045 |
| | **828 324 132** | **828 324 132** |

### 58. Financial instruments disclosure (continued)

**Financial instruments in Statement of financial performance**

**2024**

| | At amortised cost | Total |
|---|---|---|
| Interest income (calculated using effective interest method) for financial instruments at amortised cost | 193 423 463 | 193 423 463 |
| Interest expense (calculated using effective interest method) for financial instruments at amortised cost | (32 929 885) | (32 929 885) |
| | **160 493 578** | **160 493 578** |

**2023**

| | At amortised cost | Total |
|---|---|---|
| Interest income (calculated using effective interest method) for financial instruments at amortised cost | 136 012 654 | 136 012 654 |
| Interest expense (calculated using effective interest method) for financial instruments at amortised cost | (44 611 049) | (44 611 049) |
| | **91 401 605** | **91 401 605** |

### 59. Risk management

**Financial risk management**

This note presents information about the municipality's exposure to each of the financial risks below and the municipality's objectives, policies and procedures for measuring and managing financial risks. Further quantitative disclosures are included in the annual financial statements.

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

The municipality's audit committee did not oversee the monitoring of compliance with the municipality's risk management policies and procedures in the current financial year due to the committee not being functional due to late appointment.

The municipality monitors and manages the financial risks relating to the operations of the municipal entity through internal risk reviews which analysis exposures by degree and magnitude of risks. These risks include the following:
- liquidity risk;
- credit risk; and
- market risk (including interest rate risk).

The municipality seeks to minimise the effects of these risks in accordance with the municipality's policies approved by the Council. The policies provide written principles on interest rate risk and credit risk. Compliance with policies and exposure limits is reviewed by the internal auditors were applicable. The municipality does not enter into or trade in financial instruments for speculative purposes.

### 59. Risk management (continued)

**Liquidity risk**

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

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The Municipality managing of liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses. Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest reates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

The municipality has started to improve the cash funds available, however there is still a liquidity risk. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The municipality has however defaulted on payables and lease commitment payments. Certain suppliers with debt is exceeding 30 days.

All of the municipality's financial assets have been reviewed for indicators of impairment. Certain receivables were found to be impaired and a provision has been recorded accordingly. The impaired receivables are mostly due from customers defaulting on service costs levied by the municipality.

**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 reviews credit risk annually when the impairment and discounting of receivables are performed. Risk control mainly assesses the payment patterns of the consumers.

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

| Financial instrument | 2024 | 2023 |
|---|---|---|
| Receivables from exchange transactions | 544 872 051 | 441 446 980 |
| Cash and cash equivalents | 8 320 089 | 1 574 547 |
| Deposits | 4 551 261 | 4 272 987 |
| Borrowings | (4 607 335) | (4 117 597) |
| Consumer Deposits | (2 770 156) | (2 441 045) |
| Trade Payables | (956 502 828) | (788 992 317) |

**Market risk**

**Market rate risk**

The municipality has no exposure to financial risks arising from changes in market prices.

**Interest rate risk**

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

At year-end, financial instruments exposed to interest rate risk due to being linked to prime interest rate were as follows:
- Call and notice deposits/investments
- Current bank accounts
- Interest charged on consumer receivables from exchange transactions overdue

The municipality's interest rate risk arises from the above financial instruments being linked to the prime interest rate. The prime interest rate is used as a factor in calculating the interest received or interest charged on these financial instruments. Fluctuations in the prime interest rate during the year give rise to a possible interest rate risk affecting the municipality.

### 59. Risk management (continued)

Interest charged on customers' account and or received from investment are calculated using the prime rate at the beginning of the financial year. Since this interest rate is only based on prime rate at one point during the financial year, fluctuations in prime during the year will not have a material effect on these financial instruments.

**Fair values**
The municipality's financial instruments consist mainly of cash and cash equivalents, investments, trade receivables, trade payables and long term debt.

No financial asset was carried at an amount in excess of its fair value. The following methods and assumptions are used to determine the fair value of each class of financial instrument:

*Cash and cash equivalents:*
The carrying amount of cash and cash equivalents approximates fair value due to the relatively short-term maturity of these financial assets and financial liabilities

*Investments:*
Investments are carried at their original cost in the statement of financial position, except for those where the interest received are capitalised that are carried at amortised cost. Some of the financial assets held by the municipality are carried at fair value were fair value is can be ascertained.

*Receivables from exchange transactions:*
The carrying amount of trade receivables, net of provision for impairment (provision for bad debt) approximates fair value due to the relatively short-term maturity of these financial assets.

*Trade payables:*
The carrying amount of trade payables approximates fair value due to the relatively short-term maturity of this financial liability.

*Interest bearing loans:*
Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in surplus or deficit over the period of the borrowings on an effective interest basis. The fair value of interest bearing borrowings with variable interest rates approximates their carrying amounts.

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

**Undiscounted contractual cash flows of the liabilities are set out as follows:**

| 30 June 2024 | Within 1 year | 2 to 5 years | 5 years + | Total |
|---|---|---|---|---|
| Payables from exchange transactions | 170 106 267 | 429 441 512 | 232 610 066 | 832 157 845 |
| Borrowings | 489 738 | 1 120 952 | 2 996 645 | 4 551 261 |
| Consumer deposits | 2 770 156 | - | - | 2 770 156 |
| 30 June 2023 | | | | |
| Payables from Exchange Transactions | 177 362 951 | 360 709 227 | 173 579 181 | 711 651 359 |
| Borrowings | 1 120 952 | 2 996 645 | - | 4 117 597 |
| Consumer deposits | 2 441 045 | - | - | 2 441 045 |

### 59. Risk management (continued)

**Sensitivity analysis**

| 30 June 2024 | Current interest rate | Carrying amount | 1% decrease in interest rate | 1% Increase in interest rate |
|---|---|---|---|---|
| Trade and other payables - Eskom | 6,50 % | 787 206 005 | (7 872 060) | 7 872 060 |
| Borrowings | 11,26 % | 4 607 335 | (46 073) | 46 073 |
| Rreceivables from non-exchange transactions | 16,75 % | 83 779 626 | (837 796) | 837 796 |
| Receivables from exchange transactions | 16,75 % | 1 289 629 968 | (12 896 299) | 12 896 299 |
| 30 June 2023 | | | | |
| Trade and other payables - Eskom | 6,50 % | 673 803 109 | (6 738 031) | (6 738 031) |
| Borrowings | 11,26 % | 4 117 597 | (41 176) | 41 176 |
| Rreceivables from non-exchange transactions | 16,75 % | 74 363 948 | (7 443 639) | 7 443 639 |
| Receivables from exchange transactions | 16,75 % | 1 009 536 581 | (10 095 366) | (10 095 366) |

### 60. Utilisation of Long-term liabilities reconciliation

| | 2024 | 2023 |
|---|---|---|
| Long-term liabilities raised | 4 607 335 | 4 117 597 |

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

### 61. Budget differences

**Material differences between budget and actual amounts**

**Overall considerations**:

Management Responsibility for Budgetary Control:

The financial statements of Nketoana Local Municipality have been prepared in accordance with the Generally Recognized Accounting Practice (GRAP) 24 - Financial Reporting and Cash Flow Reporting, which sets out the principles and guidelines for presenting budgetary information. It is the responsibility of management to ensure that budgets and actual financial results are reasonably consistent and to disclose material discrepancies between the budgeted figures and the actual figures.

**Unfunded Budget Adopted with a Budget Funding Plan**:

Nketoana Local Municipality operates under an adopted budget that exhibits a discrepancy between the budgeted figures and the actual figures. This disclosure note aims to provide transparency to the users of the financial statements by explaining the reasons for the variance.

**Main reasons for Variance**:

The primary reason for the variance between the budgeted figures and the actual figures is the existence of an unfunded budget. An unfunded budget refers to a situation where the resources available to the municipality are insufficient to fully support the planned expenses during the budget period.

The variance between the budgeted and actual figures may occur due to various factors, such as delays in securing funding or unexpected changes in revenue streams or expenditure patterns. It is important to note that while efforts are made to attain financial sustainability, certain factors beyond the municipality's control may influence the actual financial outcomes.

**Specific considerations:**

**Service charges**

Service charges comprise of 4 core services. Some service charges were in excess of the budgeted amounts. Water and waste water billing were much higher than the budgeted amounts and can be attributed to:
- tariff corrections on industrial accounts
- meter audits and installations

**Rental of facilitiest**

The variance percentages is material but the variance amount of R214,502 is immaterial and not a core revenue source of the municipality.

**Interest received-Property rates**

Increases or decreases in the repo rate by the Reserve Bank cannot be projected reliably in the municipal budget. The repo rate ended up increasing in 2023/2024 and resulted in higher than expected interest charged on overdue municipal accounts. The impact of rate changes on the economy was worse than expected as the municipal collection rate dropped resulted in even more interest being charged in 23/24 when compared to 22/23.

**Licences and permits**

The variance % is material but the variance amount of R11,487 is very immaterial and not a core revenue source of the municipality.

**Other income**

The variance percentages is material but the variance amount of R490,787 is immaterial and not a core revenue source of the municipality.

**Interest received - Investment**

### 61. Budget differences (continued)

The increases in the repo rate were not projected accurately in the municipal budget and the effect on interest earned was unexpected.

**Property rates**

The variance is below 10% and is therefore considered reasonable.

**Interest-Non-Exchange revenue**

Increases or decreases in the repo rate by the Reserve Bank cannot be projected reliably in the municipal budget. The repo rate ended up increasing in 2023/2024 and resulted in higher than expected interest charged on overdue municipal accounts. The impact of rate changes on the economy was worse than expected as the municipal collection rate dropped resulted in even more interest being charged in 23/24 when compared to 22/23.

**Government grants & subsidies**

Grant allocations were reduced twice in the 2023/2024 and the second reduction in allocations took place after the mid-year budget adjustments. The municipality's underspending on grants further contributed to the gap between budget and actual.

**In-kind revenue**

The Provincial Treasury provided unexpected financial assistance in repaying overdue audit fees. This was not anticipated and also not budgeted for.

**Fines, penalties and forfeits**

The variance percentages is material but the variance amount of R79,869 is immaterial and not a core revenue source of the municipality.

**Employee related cost**

The variance is within the 10% norm.

**Remuneration of councillors**

Due to identified deficiencies in internal controls related to employee costs, management is unable to provide a clear explanation for the variance.

**Depreciation and amortisation**

Management conducted a reassessment of property, plant, and equipment for both the current and prior financial years, which has made budgeting for these assets challenging.

**Finance Cos**t

After the mid-year budget adjustments were processed, there were reversals on interest charged by ESKOM on the overdue bulk account. These reversals were not budgeted for as they were not expected.

**Lease rentals and operating lease**

Municipal budget templates do not allow for lease rental budgeting in the financial performance. In the budget these type of expenses are included in contracted services.

**Debt impairment**

### 61. Budget differences (continued)

Budgeting for debt impairment in the current financial year was unreliable as management revised the impairment methodology at yearend to address audit qualifications.

**Bad debt written off**

Budgeting for debt impairment in the current financial year was unreliable as management revised the impairment methodology at yearend to address audit qualifications.

**Repairs and maintenance**

Municipal budget templates do not allow for repairs and maintenance budgeting in the financial performance. In the budget these type of expenses are included in general expenses, contracted services, material and supplies, etc.

**Bulk purchases**

The variance is below 10% and is therefore considered reasonable.

**Contracted services**

Towards the financial yearend the municipality revisited all expenditure transactions to review the classification and address prior year audit findings. These reviews and corrections resulted in actuals that are lower than the budget (that was based on 2022/2023 figures with classification issues).

**General expenses**

Towards the financial yearend the municipality revisited all expenditure transactions to review the classification and address prior year audit findings. These reviews and corrections resulted in actuals that are lower than the budget (that was based on 2022/2023 figures with classification issues).

**Gains on disposal of assets**

In 2023/2024 municipal assets were auctioned after a default judgment in favor of a municipal supplier. This was an unexpected event that was not budgeted for.

**Fair value adjustments**

Fair value adjustments on property are usually immaterial and upward. This material downward adjustment on investment property was unexpected and not budgeted for.

**Actuarial gains/losses**

In an attempt to clear audit findings on actuarial valuations management submitted new employee data for 3 financial years to actuaries. The newly calculated gains and losses were not budgeted for as now accurate projections of expert valuations could be made.

**Loss on biological assets**

Movements in game values are usually volatile but immaterial. The actual reduction (loss) was unexpected but also immaterial in value as this is not a core revenue source of the municipality.

**Impairment loss**

Management conducted a reassessment of property, plant, and equipment for both the current and prior financial years, which has made budgeting for these assets challenging.

**Inventories**

The primary factor contributing to the decrease was the purchase and expensing of consumables within the current financial year. This occurred after the completion of all budgetary processes, which made it difficult to manage or control the variance.

### 61. Budget differences (continued)

**Other financial assets**

No budget has been established for other financial assets, as these represent long-term investments intended for capital gain, and the movements primarily consist of non-cash items.

**Other receivables**

This amount was written off by the municipal Council after the budget had been adopted and is the sole reason for the variance.

**Receivables from non-exchange transactions**

Management did not foresee a significant movement during the year. The primary driver of this notable movement is the adoption of the Munsoft impairment allowance methodology, which resulted in a change to the impairment loss model. The impairment loss allowance movement is a non-cash movement and therefore not budgeted for.

**Other non-exchange receivables**

No balance was budgeted for, as it is immaterial to the municipality's operations.

**VAT Receivable**

The municipal VAT account is currently part of the qualified audit items on the audit report and unreliable as a source of budget projections.

**Prepayments**

Management did not allocate a budget for prepayments, as the transaction occurred after the budget was approved. Furthermore, prepayments are considered immaterial to the municipality's operations.

**Receivables from exchange transactions**

Management did not foresee a significant movement during the year. The primary driver of this notable movement is the adoption of the Munsoft impairment allowance methodology, which resulted in a change to the impairment loss model. The impairment loss allowance movement is a non-cash movement and therefore not budgeted for.

**Cash and cash equivalents**

The municipality is operating with an unfunded budget and the cash and cash equivalents budget is calculated automatically based on the municipality's budgeted revenue and expenses and linked to the collection and payment rates..

**Biological assets**

The primary change in biological assets is attributable to fair value adjustments. Management finds it challenging to budget for fluctuations in fair value.

**Investment property**

Management performed a reassessment on investment property in the current year and therefore it was difficult to budget for.

**Property, plant and equipment**

Management performed a reassessment on property, plant and equipment in the current year and therefore it was difficult to budget for.

**Heritage assets**

The variance is below 10% and is therefore considered reasonable.

| Figures in Rand | 2024 | 2023 |
| --- | --- | --- |

**61. Budget differences (continued)**

**Other Financial Assets**

No budget has been established for other financial assets, as these represent long-term investments intended for capital gain, and the movements primarily consist of non-cash items

**Other Receivables**

The municipal budget automatically splits long overdue receivables from current receivables whereas the GRAP annual financial statements do not have non-current consumer accounts.

**Deposits**

The municipality did not allocated any budget for the ESKOM deposits and this is an omission.

**Borrowings**

The variance arises because management has not made any payments toward the loan account, as only the interest has been capitalized. Currently, there is no formal agreement in place for the repayment of the loan.

**Payables from exchange transactions**

Due to the unfunded budget and cash flow constraints, the anticipated payments on supplier accounts were not made and resulted in the variance.

**VAT Payable**

The GRAP financial statements do not split VAT between receivable and payable. The 2023/2024 AFS only has a receivable amount and results in this significant variance in the current liabilities.

**Consumer deposits**

The variance percentages is material but the variance amount is immaterial and not a core revenue source of the municipality.

**Employee benefit obligations**

As the calculations are performed yearly. Management do not anticipate adjustments yearly. It is also a non-cash item.

**Unspent conditional grant and receipts**

The municipality had unspent grant amounts in 22/23 and these were included in the approved budget. After the approval of the budget the unspent grants were not approved for roll over and were withheld from Equitable Share allocations.

**Provisions**

Management anticipated that a material current portion would have incurred however it did not materialise. This should have been budgeted for under non-current as an accumulated amount and not split between current and non-current

**Employee benefit obligations**

As the calculations are performed yearly. Management do not anticipate adjustments yearly. It is also a non-cash item.

**Provisions**

As the calculations are performed yearly. Management do not anticipate adjustments yearly. It is also a non-cash item.

**The variance is due to the loss recognised during the financial year**.

| Figures in Rand | 2024 | 2023 |
|---|---|---|

### 61. Budget differences (continued)

The impact of actuarial valuations is unknown until budget processes have been concluded and could be significant gains or losses. Fair value adjustments on Investment Property is done at yearend when budget processes have been concluded and this then results in significant variances if market conditions were volatile.

**Cash flow**

The variance is due to the impact of the over and under performance of revenue and expenditure items as indicated above under financial performance and financial position.

### 62. Prior period error

**Property, plant and equipment**

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

| | | |
|---|---|---|
| Other Property, plant and equipment | 195 629 | - |
| Infrastructure assets | 20 852 822 | - |
| Land, Buildings and community assets | 33 841 | - |
| | **21 082 292** | **-** |

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

### 63. Prior period error

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

**Statement of financial position**

**2024**

| | As previously reported | Correction of error | Restated |
|---|---|---|---|
| Other Financial Assets | 2 048 406 | (269 841) | 1 778 565 |
| Other non-exchange receivables | 781 386 | (777 224) | 4 162 |
| Receivabls from non-exchange transactions | 8 767 566 | 50 915 682 | 59 683 248 |
| Receivables from exchange transactions | 63 219 370 | 378 227 610 | 441 446 980 |
| Investment property | 122 554 911 | (23 515 819) | 99 039 092 |
| Property, plant and equipment | 860 455 825 | 151 899 986 | 1 012 355 811 |
| Payables from exchange transactions | (823 435 328) | 1 669 838 | (821 765 490) |
| Employee benefit obligations | (32 378 325) | (1 532 877) | (33 911 202) |
| Unspent conditional grants and receipts | (3 321 930) | 1 622 373 | (1 699 557) |
| Accumulated surplus | (180 159 542) | (558 239 728) | (738 399 270) |
| | **18 532 339** | **-** | **18 532 339** |

**Statement of financial performance**

### 63. Prior period error (continued)

**2024**

| | As previously reported | Correction of error | Restated |
| --- | --- | --- | --- |
| In-Kind Revenue | - | (1 669 842) | (1 669 842) |
| Employee related cost | 148 703 872 | 405 655 | 149 109 527 |
| Depreciation expense | 104 777 066 | (49 531 974) | 55 245 092 |
| Finance cost | 55 715 832 | 268 090 | 55 983 922 |
| Debt impairment | 236 326 975 | 417 503 969 | 653 830 944 |
| Fair value adjustment | (8 668 857) | 1 156 060 | (7 512 797) |
| Actuarial gains/(losses) | (5 026 038) | 2 088 308 | (2 937 730) |
| Impairment loss | 21 311 679 | (4 412 193) | 16 899 486 |
| **Surplus for the year** | **553 140 529** | **365 808 073** | **918 948 602** |

**Errors**

**Other Financial Assets (VKB Preference Shares)**

### 63. Prior period error (continued)

During the period under review, an opening balance of R303 599.88 related to the VKB Preference shares was identified, for which no supporting documentation could be identified. The error was retrospectively adjusted. The effect of the correction of the error is summarised below:

| | |
| --- | --- |
| Decrease in other financial assets | (R303 599) |
| Increase in accumulated surplus | R303 599 |

**Other Financial Assets (Old Mutual Policy:5208945)**

During the review period, it was observed that the prior period balance in the Annual Financial Statements did not align with the prior year balance provided in the policy statement received from Old Mutual. The error was retrospectively adjusted. The effect of the correction of the error is summarised below:

| | |
| --- | --- |
| Decrease in other financial assets | R26 084 |
| Increase in Gains and Losses: Fair value Adjustment | (R26 084) |

**Other Financial Assets (VKB Security shareholders loan)**

Upon reviewing the VKB Shareholders Statements, it has been confirmed that the short-term portion of the loan was not recorded in the municipality's accounting records. This short-term loan portion was recognized in the financial statements for the year 2023. The error was retrospectively adjusted. The effect of the correction of the error is summarised below:

| | |
| --- | --- |
| Increase in other financial assets | R7 674 |
| Increase in accumulated surplus | (R7 674) |

**Other Non-Exchange Receivables (Traffic Fines)**

Statutory receivables were not accurately accounted for in prior financial years due to absence of impairment considerations. The error was retrospectively adjusted. The effect of the correction of the error is summarised below:

| | |
| --- | --- |
| Decrease in accumulated surplus | R513 718 |
| Increase in write-off expense | R339 150 |
| Decrease in impairment expense | (R75 644) |
| Decrease in other non-exchange receivables | (R521 786) |
| Increase in Impairment Allowance | (R255 438) |

**Receivables from non-exchange transactions**:

During the period under review an opening balance to the amount of R2 233 133.01 and R20 654.91n was identified of which no supporting evidence could be obtained. The error was retrospectively adjusted. The error was retrospectively adjusted. The effect of the correction of the error is summarised below:

| | |
| --- | --- |
| Decrease in receivables from non-exchange transactions | (R2 253 768) |
| Increase in write-off expense | R2 223 113 |
| Decrease in accumulated surplus | R20 655 |

**Receivables from non-exchange transactions**

Upon reviewing the previous year’s communication regarding the impairment calculation, it has been confirmed that the impairment calculation was materially misstated. In the current financial year, the impairment of Non-Exchange Receivables has been recalculated in accordance with the recommendations from the National Treasury. The error was retrospectively adjusted. The effect of the correction of the error is summarised below:

| | |
| --- | --- |
| Decrease in impairment allowance | R67 850 150 |
| Decrease in write off expense | (R12 190 868) |
| Increase in accumulated surplus | (R55 659 281) |
| Increase in impairment allowance | (R14 680 700) |
| Increase in write off expense | R14 680 700 |

# Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
| --- | --- | --- |

**63. Prior period error (continued)**
**Receivables from exchange transactions**

A discrepancy was identified between the general ledger and the Age Analysis, originating from the prior year. A journal entry has been processed to rectify this difference. The error was retrospectively adjusted. The effect of the correction of the error is summarised below:

| | |
| --- | --- |
| Increase in receivable from exchange receivables | R607 375 |
| Increase in accumulated surplus | (R607 375) |

**Receivables from exchange transactions:**

Upon reviewing the previous year's communication regarding the impairment calculation, it has been confirmed that the impairment calculation was materially misstated. In the current financial year, the impairment of Exchange Receivables has been recalculated in accordance with the recommendations from the National Treasury. The error was retrospectively adjusted. The effect of the correction of the error is summarised below:

| | |
| --- | --- |
| Decrease in impairment allowance | R945 709 836 |
| Decrease in debt write off | R155 571 883 |
| Increase in Accumulated Surplus | (R790 137 953) |
| Increase in impairment allowance | (R568 089 601 |
| Increase in debt write off | R568 089 601 |

**Investment property**

During the review period, asset verifications were conducted, and the asset registers were updated accordingly. Corrections to Investment Property were made to reclassify movements from properties to Property, Plant, and Equipment: Land.The error was retrospectively adjusted. The effect of the correction of the error is summarised below:

| | |
| --- | --- |
| Decrease in investment property | (R23 515 819) |
| Decrease in fair value adjustment | R1 182 145 |
| Decrease in accumulated surplus | R22 333 674 |

**Property, plant and equipment**

During the review period, asset verifications were conducted, and the asset registers were updated accordingly. Corrections to property, plant and equipment were made to correct errors .The error was retrospectively adjusted. The effect of the correction of the error is summarised below:

| | |
| --- | --- |
| Increase in property, plant and equipment | R151 899 987 |
| Increase in accumulated surplus | (R97 955 821) |
| Decrease in depreciation expense | (R49 531 974) |
| Decrease in impairment expense | (R4 412 193) |

**Unspent conditional grants and receipts**

The prior period adjustment arose from an anomaly in the opening balance of unconditional grants, specifically an amount that lacked requisite supporting documentation.he error was retrospectively adjusted. The effect of the correction of the error is summarised below:

| | |
| --- | --- |
| Decrease in unspent conditional grants and receipts | R1 597 812 |
| Increase in accumulated surplus | (R1 597 812) |

**Employee benefit obligations:**

The balances for employee benefits from the prior year and the current year were recalculated in the current financial year, revealing some discrepancies. The error was retrospectively adjusted. The effect of the correction of the error is summarised below:

| | |
| --- | --- |
| Increase in employee benefit obligations | (R1 532 877) |
| Increase in finance cost expense | R268 090 |

## Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
|---|---|---|

### 63. Prior period error (continued)

| | | |
|---|---|---|
| Increase in actuarial gain | R2 088 308 | |
| Increase in employee related expenses | R405 665 | |
| Increase in accumulated surplus | (R1 229 186) | |

**In-kind revenue**

Audit fees paid on behalf of Nketoana Local Municipality by the Provincial Treasury was not recognised as In-kind revenue in the 2023 financial year. The error was retrospectively adjusted. The effect of the correction of the error is summarised below:

| | | |
|---|---|---|
| Decrease in Payables from exchange transactions | R1 669 838 | |
| Increase in In-kind revenue | (R1 669 838) | |