



Nkomazi
Local Municipality

Nkomazi Local Municipality
Annual Financial Statements
for the year ended 30 June 2025



Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

General Information

Legal form of entity

Local municipality

Nature of business and principal activities

Providing municipal services

Mayoral committee

Executive Mayor

Speaker

Chief whip

Councillor's

Magagula PP

Nyambi-Sambo HV

Mziako PM

Mahlalela SS (MMC - Budget and Treasury)

Sibiya SG (MMC - Corporate Services)

Ndlovu J (MMC - Planning and Development)

Mavuso MJ (MMC - Economic Development and Tourism)

Luphoko PC (MMC - Community Services)

Vuma LT (MMC - Environmental Services)

Makamo TN (MMC - Infrastructure Development)

Biya MP

Dikiza GK

Dlamini DM

Dlamini NG

Fane SM

Hlophe NC

Khoza J

Khoza NC

Kitshoff LJK

Lubisi MT

Lubisi SD

Mabaso MS

Magagula FK

Mahlalela MM

Mahlalela PA

Makhubela D

Malaza BB

Mashele RN

Mathobela NV

Mbatha NJ

Mhlongo LK

Mhlongo VW

Mkhabela MH

Mkhatshwa BL

Mkhatshwa SL

Mndawe SO

Mngomezulu IM

Mthombo TM

Ngcane TV

Ngobeni SV

Ngomane GB

Ngomane KG

Ngomane LP

Ngomane SW

Ngomane W

Ngwenya AM



Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

General Information

	Nkomo NR Nkala S Nkosi SP Nkuna SB Shabane NP Shabangu MJ Shabangu R Shongwe BC Shongwe LN Shongwe NF Shungube ZI Sibiya GP Sibiya IK Siboza JT Sibuye SE Silinda PC Thabethe SB Tshabalala SB
Accounting Officers	Mabila XT Nkosi ON
Chief Finance Officer (CFO)	Thobela TS
Business address	9 Park Street Civic Centre Malelane 1320
Postal address	Private Bag X101 Malelane 1320
Bankers	Standard Bank Mbombela
Auditors	The Auditor General
Demarcation code	MP324



Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

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Acronyms:

ASB	Accounting Standards Board
COID	Compensation for Occupational Injuries and Diseases
GRAP	Generally Recognised Accounting Practice
IFS	Interim Financial Statements
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts
MMC	Member of mayoral committee
SOFP	Statement of Financial Position
SOFPR	Statement of Financial Performance
PPE	Property, Plant and Equipment



Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Accounting Officers' Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are 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 endeavors to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviours 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 have reviewed the municipality's cash flow forecast for the year to 30 June 2026 and, in the light of this review and the current financial difficulties experienced by the municipality, they are satisfied that the municipality will implement financial interventions and revenue collection strategies to have access to adequate resources to continue in operational existence for the foreseeable future.

The accounting officer is responsible for the preparation of these Annual financial statements, which are set out on the attached pages, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

The accounting officer certify that the salaries, allowances and benefits of Councillor's as disclosed in the notes of the attached Annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Cooperative Governance and Traditional Affairs determination in accordance with this Act. The accounting officer also certify that the salaries of municipal staff is within the annual increase limits of the SALGA Bargaining Council determinations.

The annual financial statements set out on pages 5 to 93, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2025 and were signed on its behalf by:

Nkosi ON
Accounting officer

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Accounting Officers' Report

The accounting officer submit their report for the year ended 30 June 2025.

1. Review of activities

Main business and operations

The municipality is a medium capacity municipality, engaged in providing municipal services. It delivers basic services such as water, electricity and refuse removal services to the Malalane, Komatipoort, Marloth Park and Hectorspruit region. The municipality provide free water and refuse removal services to rural areas within the local sphere of Nkomazi.

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 surplus of the municipality was 74 834 200 (2024: deficit 154 674 081).

2. Going concern

We draw attention to the fact that at 30 June 2025, the municipality had an accumulated surplus of 3 075 315 708 and that the municipality's total assets exceed its liabilities by 3 075 315 708.

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

3. Subsequent events

The accounting officer are not aware of any other matter or circumstance arising since the end of the financial year which requires adjustment or disclosure in the Annual financial statements.

4. Accounting policies

The Annual financial statements have been prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board, in accordance with Section 122(3) of the MFMA. The impact on the results of the municipality in adopting the above policies is reflected in note 1 to the annual financial statement.

5. Accounting Officers

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

Name	Nationality	Changes
Nkosi ON	South African	Appointed Monday, 02 June 2025
Mabila XT	South African	Resigned Friday, 16 May 2025

6. Auditors

The Auditor General will continue in office for the next financial period.



Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Statement of Financial Position as at 30 June 2025

	Note(s)	2025	2024
Assets			
Current Assets			
Inventories	11	42 127 428	42 744 046
Operating lease asset	7	70 100	-
Receivables from exchange transactions	12	91 164 875	94 004 654
Statutory receivables	13	15 812 180	16 857 907
Receivables from non-exchange transactions	14	1 759 655	2 064 038
Consumer debtors	15	24 346 222	26 974 178
Cash and cash equivalents	16	4 291 887	-
		179 572 347	182 644 823
Non-Current Assets			
Investment property	3	8 211 261	10 516 032
Property, plant and equipment	4	3 616 665 192	3 427 849 929
Intangible assets	5	1 077 155	1 272 042
Heritage assets	6	1 621 944	1 621 944
Receivables from exchange transactions	12	35 462 031	30 713 211
		3 663 037 583	3 471 973 158
Total Assets		3 842 609 930	3 654 617 981
Liabilities			
Current Liabilities			
Operating lease liability	7	-	70 838
Payables from exchange transactions	8	589 101 288	486 210 152
Employee benefit obligation	9	6 990 875	6 060 173
Finance lease obligation	17	2 396 389	1 177 658
Unspent conditional grants and receipts	18	15 288 904	779 635
Provisions	19	74 639 980	71 155 673
Other short term liability	16	-	9 799 676
		688 417 436	575 253 805
Non-Current Liabilities			
Finance lease obligation	17	-	1 573 787
Operating lease liability	7	205 851	-
Employee benefit obligation	9	46 160 445	48 971 579
Provisions	19	32 510 490	28 337 302
		78 876 786	78 882 668
Total Liabilities		767 294 222	654 136 473
Net Assets		3 075 315 708	3 000 481 508
Accumulated surplus		3 075 315 708	3 000 481 508
Total Net Assets		3 075 315 708	3 000 481 508

Audited
By
2025 -11- 28
Auditor General South Africa
Mpumalanga Business Unit

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Statement of Financial Performance

	Note(s)	2025	2024
Revenue			
Revenue from exchange transactions			
Service charges	22	237 224 365	220 278 819
Construction contracts	20	3 787 000	14 400 000
Rental of facilities and equipment	23	4 872 472	5 134 500
Interest received (trading)		3 836 770	4 117 492
Licences and permits	26	1 504 695	2 174 346
Recoveries	28	6 187 189	-
Operational revenue	28	8 977 238	10 002 135
Interest received - investment	29	7 296 440	15 426 455
Gain on disposal of assets		8 667 188	-
Actuarial gains	9	5 655 388	-
Total revenue from exchange transactions		288 008 745	271 533 747
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	30	125 303 979	119 461 777
Interest - property rates	20	7 703 865	12 167 295
Transfer revenue			
Government grants & subsidies	32	1 177 716 545	1 179 876 447
Public contributions and donations	33	1 408 804	19 575 525
Fines, Penalties and Forfeits	24	3 358 835	2 463 579
Total revenue from non-exchange transactions		1 315 492 028	1 333 544 623
Total revenue	20	1 603 500 773	1 605 078 370
Expenditure			
Employee related costs	34	(734 005 767)	(722 518 878)
Remuneration of councillors	35	(29 440 433)	(31 119 467)
Depreciation and amortisation	36	(109 795 250)	(101 429 249)
Impairments loss	37	(601 025)	(1 393 914)
Construction contract expense	25	(3 787 000)	(15 744 803)
Finance costs	38	(17 236 224)	(2 848 240)
Lease rentals on operating lease	27	(6 797 440)	(6 538 049)
Debt Impairment	40	(9 711 988)	(166 320 156)
Bulk purchases	42	(150 987 850)	(127 600 781)
Contracted Services	43	(187 331 609)	(263 253 545)
Transfers and Subsidies	31	(13 130 507)	(18 689 149)
Loss on disposal of assets		-	(6 957 375)
Actuarial losses	9	-	(2 475 859)
Inventories losses/write-downs		(11 806)	(27 183)
Inventory consumed	21	(59 068 899)	(58 954 278)
Operational expenditure	41	(206 760 775)	(233 881 525)
Total expenditure		(1 528 666 573)	(1 759 752 451)
Surplus (deficit) for the year		74 834 200	(154 674 081)

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Annual Financial Statements for the year ended 30 June 2025

Statement of Changes in Net Assets

	Accumulated surplus / deficit	Total net assets
Balance at 01 July 2023	3 154 711 967	3 154 711 967
Changes in net assets		
Surplus /(Deficit) for the year	(154 674 081)	(154 674 081)
Total changes	(154 674 081)	(154 674 081)
Opening balance as previously reported	3 000 037 886	3 000 037 886
Adjustments		
Correction of errors 50	443 622	443 622
Balance at 01 July 2024 as restated*	3 000 481 508	3 000 481 508
Changes in net assets		
Surplus /(Deficit) for the year	74 834 200	74 834 200
Total changes	74 834 200	74 834 200
Balance at 30 June 2025	3 075 315 708	3 075 315 708
Note(s)		



Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Cash Flow Statement

	Note(s)	2025	2024
Cash flows from operating activities			
Receipts			
Property rates and other		372 834 854	299 463 806
Grants and subsidies		1 192 225 814	1 146 828 936
Interest income		28 885 891	28 363 106
Construction contracts receipts		3 787 000	14 400 000
		<u>1 597 733 559</u>	<u>1 489 055 848</u>
Payments			
Employee costs		(740 622 967)	(715 769 593)
Suppliers		(555 810 105)	(552 098 449)
Finance costs		(17 236 224)	(2 848 240)
		<u>(1 313 669 296)</u>	<u>(1 270 716 282)</u>
Net cash flows from operating activities	44	<u>284 064 263</u>	<u>218 339 566</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(280 012 286)	(343 493 323)
Proceeds from sale of property, plant and equipment	4	11 881 521	-
Purchase of other intangible assets	5	(186 944)	(453 295)
Net cash flows from investing activities		<u>(268 317 709)</u>	<u>(343 946 618)</u>
Cash flows from financing activities			
Finance lease repayments		(1 654 991)	(1 205 524)
Net increase/(decrease) in cash and cash equivalents		14 091 563	(126 812 576)
Cash and cash equivalents at the beginning of the year		(9 799 676)	117 012 900
Cash and cash equivalents at the end of the year	16	<u>4 291 887</u>	<u>(9 799 676)</u>

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Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	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	248 234 010	(4 029 742)	244 204 268	237 224 365	(6 979 903)	
Construction contracts	3 787 000	-	3 787 000	3 787 000	-	
Rental of facilities and equipment	6 214 770	-	6 214 770	4 872 472	(1 342 298)	59
Interest received (trading)	3 951 876	-	3 951 876	3 836 770	(115 106)	
Licences and permits	2 717 188	-	2 717 188	1 504 695	(1 212 493)	59
Recoveries	-	-	-	6 187 189	6 187 189	59
Operational revenue	6 280 700	-	6 280 700	8 977 238	2 696 538	59
Interest received - investment	27 713 534	-	27 713 534	7 296 440	(20 417 094)	59
Total revenue from exchange transactions	298 899 078	(4 029 742)	294 869 336	273 686 169	(21 183 167)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	145 118 304	-	145 118 304	125 303 979	(19 814 325)	59
Interest - Property rates	13 654 009	-	13 654 009	7 703 865	(5 950 144)	59
Transfer revenue						
Government grants & subsidies	1 199 510 608	-	1 199 510 608	1 177 716 545	(21 794 063)	59
Public contributions and donations	-	-	-	1 408 804	1 408 804	59
Fines, Penalties and Forfeits	4 256 160	-	4 256 160	3 358 835	(897 325)	59
Total revenue from non-exchange transactions	1 362 539 081	-	1 362 539 081	1 315 492 028	(47 047 053)	
Total revenue	1 661 438 159	(4 029 742)	1 657 408 417	1 589 178 197	(68 230 220)	
Expenditure						
Employee related costs	(680 244 733)	7 678 994	(672 565 739)	(734 005 767)	(61 440 028)	59
Remuneration of councillors	(28 125 313)	(953 765)	(29 079 078)	(29 440 433)	(361 355)	
Depreciation and amortisation	(72 722 373)	(16 542 234)	(89 264 607)	(109 795 250)	(20 530 643)	59
Impairment loss	-	-	-	(601 025)	(601 025)	59
Construction contract expense	(3 787 000)	(2 706 828)	(6 493 828)	(3 787 000)	2 706 828	
Finance costs	(101 594)	-	(101 594)	(17 236 224)	(17 134 630)	59
Lease rentals on operating lease	(6 983 115)	-	(6 983 115)	(6 797 440)	185 675	
Debt impairment	(3 780 914)	-	(3 780 914)	(9 711 988)	(5 931 074)	59
Bulk purchases	(104 514 460)	-	(104 514 460)	(150 987 850)	(46 473 390)	59
Contracted Services	(152 311 823)	19 695 299	(132 616 524)	(187 331 609)	(54 715 085)	59
Transfers and Subsidies	(17 364 649)	761 992	(16 602 657)	(13 130 507)	3 472 150	59
Inventory consumed	(61 770 388)	(15 103 612)	(76 874 000)	(59 068 899)	17 805 101	
Operational expenditure	(190 475 660)	14 848 804	(175 626 856)	(206 760 775)	(31 133 919)	59
Total expenditure	(1 322 182 022)	7 678 650	(1 314 503 372)	(1 528 654 767)	(214 151 395)	
Operating surplus	339 256 137	3 648 908	342 905 045	60 523 430	(282 381 615)	
Gain on disposal of assets	-	-	-	8 667 188	8 667 188	59
Actuarial gains	-	-	-	5 655 388	5 655 388	59

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Inventories losses/write-downs	-	-	-	(11 806)	(11 806)	59
	-	-	-	14 310 770	14 310 770	
Surplus for the year	339 256 137	3 648 908	342 905 045	74 834 200	(268 070 845)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	339 256 137	3 648 908	342 905 045	74 834 200	(268 070 845)	

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2025-11-28
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Mpumalanga Business Unit

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	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	58 017 423	(15 013 612)	43 003 811	42 127 428	(876 383)	
Operating lease asset	-	-	-	70 100	70 100	59
Receivables from exchange transactions	6 405 128	(182 216)	6 222 912	91 164 875	84 941 963	59
Statutory receivables	256 369 014	(158 288 477)	98 080 537	15 812 180	(82 268 357)	59
Receivables from non-exchange transactions	6 139 393	(6 139 393)	-	1 759 655	1 759 655	59
Consumer debtors	70 842 662	(45 357 597)	25 485 065	24 346 222	(1 138 843)	
Cash and cash equivalents	123 565 728	(221 141 903)	(97 576 175)	4 291 887	101 868 062	59
	521 339 348	(446 123 198)	75 216 150	179 572 347	104 356 197	
Non-Current Assets						
Investment property	11 842 426	(903 184)	10 939 242	8 211 261	(2 727 981)	59
Property, plant and equipment	2 649 971 909	(54 701 444)	2 595 270 465	3 616 665 192	1 021 394 727	
Intangible assets	1 501 910	(250 000)	1 251 910	1 077 155	(174 755)	59
Heritage assets	1 621 944	-	1 621 944	1 621 944	-	
Receivables from exchange transactions	26 459 341	5 666 678	32 126 019	35 462 031	3 336 012	59
	2 691 397 530	(50 187 950)	2 641 209 580	3 663 037 583	1 021 828 003	
Total Assets	3 212 736 878	(496 311 148)	2 716 425 730	3 842 609 930	1 126 184 200	
Liabilities						
Current Liabilities						
Finance lease obligation	981 620	-	981 620	2 396 389	1 414 769	59
Payables from exchange transactions	192 233 855	22 713 892	214 947 747	589 101 288	374 153 541	59
Employee benefit obligation	-	-	-	6 990 875	6 990 875	59
Unspent conditional grants and receipts	-	-	-	15 288 904	15 288 904	59
Provisions	69 631 231	10 284 616	79 915 847	74 639 980	(5 275 867)	59
	262 846 706	32 998 508	295 845 214	688 417 436	392 572 222	
Non-Current Liabilities						
Finance lease obligation	10 316 141	(8 739 931)	1 576 210	-	(1 576 210)	59
Operating lease liability	69 971	-	69 971	205 851	135 880	59
Employee benefit obligation	44 589 484	21 431 565	66 021 049	46 160 445	(19 860 604)	59
Provisions	26 399 221	-	26 399 221	32 510 490	6 111 269	59
	81 374 817	12 691 634	94 066 451	78 876 786	(15 189 665)	
Total Liabilities	344 221 523	45 690 142	389 911 665	767 294 222	377 382 557	
Net Assets	2 868 515 355	(542 001 290)	2 326 514 065	3 075 315 708	748 801 643	

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	2 868 515 355	(542 001 290)	2 326 514 065	3 075 315 708	748 801 643	



Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	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						
Property rates and other receipts	393 421 561	-	393 421 561	372 834 854	(20 586 707)	
Grants	1 199 510 608	-	1 199 510 608	1 192 225 814	(7 284 794)	
Interest income	12 791 212	-	12 791 212	28 885 891	16 094 679	59
Construction contract receipts	3 787 000	-	3 787 000	3 787 000	-	
	1 609 510 381	-	1 609 510 381	1 597 733 559	(11 776 822)	
Payments						
Suppliers and employees	(1 066 475 804)	-	(1 066 475 804)	(1 296 433 064)	(229 957 260)	59
Finance costs	(101 594)	-	(101 594)	(17 236 224)	(17 134 630)	59
	(1 066 577 398)	-	(1 066 577 398)	(1 313 669 288)	(247 091 890)	
Net cash flows from operating activities	542 932 983	-	542 932 983	284 064 271	(258 868 712)	
Cash flows from investing activities						
Purchase of capital assets	(443 999 722)	-	(443 999 722)	(280 199 230)	163 800 492	59
Proceeds from sale of property, plant and equipment	-	-	-	11 881 521	11 881 521	59
Net cash flows from investing activities	(443 999 722)	-	(443 999 722)	(268 317 709)	175 682 013	
Cash flows from financing activities						
Finance lease repayments	(690 267)	-	(690 267)	(1 654 991)	(964 724)	59
Increase / (decrease) is consumer deposits	(1 753 471)	-	(1 753 471)	-	1 753 471	59
Borrowing long term /refinancing	1 056 141	-	1 056 141	-	(1 056 141)	59
Net cash flows from financing activities	(1 387 597)	-	(1 387 597)	(1 654 991)	(267 394)	
Net increase/(decrease) in cash and cash equivalents	97 545 664	-	97 545 664	14 091 571	(83 454 093)	
Cash and cash equivalents at the beginning of the year	185 341 718	-	185 341 718	(9 799 676)	(195 141 394)	59
Cash and cash equivalents at the end of the year	282 887 382	-	282 887 382	4 291 895	(278 595 487)	

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments (i.t.o. s31 of the MFMA)	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance											
Property rates	145 118 304	-	145 118 304	-	-	145 118 304	125 303 979		(19 814 325)	86 %	86 %
Service charges	248 234 010	(4 029 742)	244 204 268	-	-	244 204 268	237 224 365		(6 979 903)	97 %	96 %
Investment revenue	27 713 534	-	27 713 534	-	-	27 713 534	7 296 440		(20 417 094)	26 %	26 %
Transfers recognised - operational	875 196 448	1 098 008	876 294 456	-	-	876 294 456	872 769 567		(3 524 889)	100 %	100 %
Other revenue	40 861 703	-	40 861 703	-	-	40 861 703	50 763 640		9 901 937	124 %	124 %
Total revenue (excluding capital transfers and contributions)	1 337 123 999	(2 931 734)	1 334 192 265	-	-	1 334 192 265	1 293 357 991		(40 834 274)	97 %	97 %
Employee costs	(680 244 733)	7 678 994	(672 565 739)	-	-	(672 565 739)	(734 005 767)		(61 440 028)	109 %	108 %
Remuneration of councillors	(28 125 313)	(953 765)	(29 079 078)	-	-	(29 079 078)	(29 440 433)		(361 355)	101 %	105 %
Depreciation and asset impairment	(72 722 373)	(16 542 234)	(89 264 607)	-	-	(89 264 607)	(110 396 275)		(21 131 668)	124 %	152 %
Finance charges	(101 594)	-	(101 594)	-	-	(101 594)	(17 236 224)		(17 134 630)	16 966 %	16 966 %
Inventory consumed and bulk purchases	(166 284 848)	(15 103 612)	(181 388 460)	-	-	(181 388 460)	(210 056 749)		(28 668 289)	116 %	126 %
Transfers and grants	(21 151 649)	(1 944 836)	(23 096 485)	-	-	(23 096 485)	(13 130 507)		9 965 978	57 %	62 %
Other expenditure	(353 851 512)	34 544 103	(319 307 409)	-	-	(319 307 409)	(414 400 618)		(95 093 209)	130 %	117 %
Total expenditure	(1 322 482 022)	7 678 650	(1 314 803 372)	-	-	(1 314 803 372)	(1 528 666 573)		(213 863 201)	116 %	116 %
Surplus/(Deficit)	14 641 977	4 746 916	19 388 893	-	-	19 388 893	(235 308 582)		(254 697 475)	(1 214)%	(1 607)%

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Annual Financial Statements for the year ended 30 June 2025

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers and subsidies - capital	324 314 160	(1 098 008)	323 216 152	-	-	323 216 152	308 733 978		(14 482 174)	96 %	95 %
Public contributions and donations	-	-	-	-	-	-	1 408 804		1 408 804	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	338 956 137	3 648 908	342 605 045	-	-	342 605 045	74 834 200		(267 770 845)	22 %	22 %
Surplus/(Deficit) for the year	338 956 137	3 648 908	342 605 045	-	-	342 605 045	74 834 200		(267 770 845)	22 %	22 %
Capital expenditure and funds sources											
Total capital expenditure	443 999 722	(54 951 444)	389 048 278	-	-	389 048 278	299 926 214		(89 122 064)	77 %	68 %
Sources of capital funds											
Transfers recognised - capital	324 314 162	(2 761 005)	321 553 157	-	-	321 553 157	271 060 388		(50 492 769)	84 %	84 %
Internally generated funds	119 685 560	(52 190 439)	67 495 121	-	-	67 495 121	28 865 826		(38 629 295)	43 %	24 %
Total sources of capital funds	443 999 722	(54 951 444)	389 048 278	-	-	389 048 278	299 926 214		(89 122 064)	77 %	68 %

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Significant Accounting Policies

	2025	2024
Note(s)		

1. Significant accounting policies

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

1.1 Basis of preparation

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

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

These accounting policies are consistent with the previous period.

1.2 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 Significant judgements and sources of estimation uncertainty

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

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

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality 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 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.

Fair value estimation

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 non- 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 assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

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

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Significant Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in note 19 - Provisions.

Useful lives of PPE and other assets

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

Post-retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 9.

Effective interest rate

The municipality used 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 financial instruments, revenue and expenses at initial recognition. The adjustments require a degree of estimation around the discount rates and periods used.

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.

Impairment of statutory receivables

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

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

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

1.4 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

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Significant Accounting Policies

1.4 Investment property (continued)

- administrative purposes, or
- sale in the ordinary course of operations.

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.

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.

Cost model

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

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

The useful lives of items of investment property have been assessed as follows:

Item

Property - land

Property - buildings

Useful life
indefinite
10 - 30 years

Investment property is derecognised 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.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

1.5 Property, plant and equipment

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

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

- it is probable that future economic benefits or service potential associated with the item will flow to the 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.

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.

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

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

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Significant Accounting Policies

1.5 Property, plant and equipment (continued)

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

Item	Depreciation method	Average useful life
Land	N/A	Indefinite
Buildings	Straight-line	5 -30 years
Plant and machinery	Straight-line	2 - 15 years
Furniture and fixtures	Straight-line	3 - 10 years
Motor vehicles	Straight-line	4 - 15 years
IT equipment	Straight-line	3 - 10 years
- Roads and storm water	Straight-line	3 - 100 years
- Electricity	Straight-line	3 - 80 years
- Water	Straight-line	10 - 100 years
- Sewerage	Straight-line	10 - 60 years
- Solid waste	Straight-line	5 - 55 years

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

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

The 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.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements.

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

1.6 Intangible assets

An asset is identifiable if it either:

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

An intangible asset is recognised when:

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

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

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

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Significant Accounting Policies

1.6 Intangible assets (continued)

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

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

The useful lives of intangible assets have been assessed as follows:

Item	Depreciation method	Average useful life
Computer software, other	Straight-line	2 - 5 years

Intangible assets are derecognised:

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

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

1.7 Heritage assets

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.

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.

Subsequent measurement

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

Impairment

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

Transfers

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

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

Derecognition

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

The gain or loss arising from 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).

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Significant Accounting Policies

1.8 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.

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.

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 favorable to the entity.

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

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

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.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Significant Accounting Policies

1.8 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.



Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Significant Accounting Policies

1.8 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
Receivables from exchange transactions	Financial asset measured at amortised cost
Consumer debtors	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
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Operating lease obligation	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.

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 amortised cost.
- Financial instruments at cost.

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

Reclassification

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

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

Gains and losses

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

Impairment and uncollectibility of financial assets

The entity assess 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:

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Annual Financial Statements for the year ended 30 June 2025

Significant Accounting Policies

1.8 Financial instruments (continued)

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.

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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.

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.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Significant Accounting Policies

1.9 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.

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.

Impairment losses

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

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

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

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

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.

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

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Significant Accounting Policies

1.9 Statutory receivables (continued)

- 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.

1.10 Leases

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

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

Finance leases - lessee

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

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

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

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

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

Operating leases - lessee

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

1.11 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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Significant Accounting Policies

1.11 Inventories (continued)

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 water inventories is assigned using the weighted average cost formula. The first in, first out (FIFO) cost formula is used for all other inventories having a similar nature and use to the municipality.

Land inventory is measured at the lower of cost and current replacement cost as they will be distributed through a non-exchange transaction. Transfer costs relating to the transfer of the title deeds to the beneficiaries will be recognised in surplus or deficit in the period which they occur.

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.

1.12 Construction contracts and receivables

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contractor is an entity that performs construction work pursuant to a construction contract.

Cost plus or cost-based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term "contractor" thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The municipality assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, an entity considers whether it is a contractor.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

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.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Significant Accounting Policies

1.13 Impairment of 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.

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.

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.

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.

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.

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

1.14 Impairment of non-cash-generating assets

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

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

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

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Significant Accounting Policies

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

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.

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

[Specify judgements made]

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.

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.

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.

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

1.15 Employee benefits

Identification

Employee benefits

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

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

Post-employment benefits are employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment.

Other long-term employee benefits are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.

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Significant Accounting Policies

1.15 Employee benefits (continued)

Short-term employee benefits

Recognition and measurement

All short-term employee benefits

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:

(a) 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.

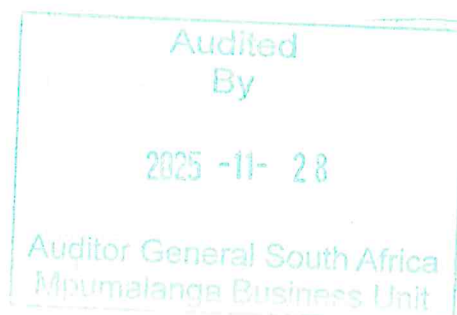
(b) As an expense, unless another Standard of GRAP requires or permits the inclusion of the benefits in the cost of an asset.

Bonus, incentive and performance related payments

The entity recognises the expected cost of bonus, incentive and performance related payments when, and only when:

(a) the entity has a present legal or constructive obligation to make such payments as a result of past events; and

(b) a reliable estimate of the obligation can be made. A present obligation exists when, and only when, the entity has no realistic alternative but to make the payments.



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Significant Accounting Policies

1.15 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Recognition and measurement

The entity determines the net defined benefit liability (asset) with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.

Statement of financial position

The entity recognises the net defined benefit liability (asset) in the statement of financial position. When the entity has a surplus in a defined benefit plan, it measures the net defined benefit asset at the lower of:

- (a) the surplus in the defined benefit plan; and
- (b) the asset ceiling, determined using the discount rate specified. Any adjustments arising from the limit is recognised in surplus or deficit.

Recognition and measurement: Present value of defined benefit obligations and current service cost

Actuarial valuation method

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.

Attributing benefit to periods of service

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

- (a) 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
- (b) 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 assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

Actuarial assumptions: Mortality

The entity determines its mortality assumptions by reference to its best estimate of the mortality of plan members both during and after employment.

Actuarial assumptions: Discount rate

The rate used to discount post-employment benefit obligations (both funded and unfunded) 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 post-employment benefit obligations.

Actuarial assumptions: Salaries, benefits and medical costs

The entity measures its defined benefit obligations on a basis that reflects:

- (a) the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the end of the reporting period;

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Significant Accounting Policies

1.15 Employee benefits (continued)

- (b) any estimated future salary increases that affect the benefits payable;
- (c) the effect of any limit on the employer's share of the cost of the future benefits;
- (d) contributions from employees or third parties that reduce the ultimate cost to the entity of those benefits; and
- (e) 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:
 - (i) those changes were enacted before the end of the reporting period; or
 - (ii) historical data, 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 takes account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Components of defined benefit cost

The entity recognises the components of defined benefit cost in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset, as follows:

- (a) service cost;
- (b) net interest on the net defined benefit liability (asset); and
- (c) remeasurements of the net defined benefit liability (asset).

Current service cost

The entity determines current service cost using actuarial assumptions determined at the start of the reporting period. However, if the entity remeasures the net defined benefit liability (asset) in accordance with the section on Past service cost gains and losses on settlement, it determines current service cost for the remainder of the reporting period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability (asset) in accordance with the section on Past service cost gains and losses on settlement (part b).

Net interest on the net defined benefit liability (asset)

The entity determines net interest on the net defined benefit liability (asset) by multiplying the net defined benefit liability (asset) by the discount rate specified.

To determine net interest, the entity uses the net defined benefit liability (asset) and the discount rate determined at the start of the reporting period. However, if the entity remeasures the net defined benefit liability (asset) in accordance with the section on Past service cost gains and losses on settlement, the entity determines net interest for the remainder of the reporting period after the plan amendment, curtailment or settlement using:

- (a) the net defined benefit liability (asset) determined in accordance with the section on Past service cost gains and losses on settlement (part b); and
- (b) the discount rate used to remeasure the net defined benefit liability (asset) in accordance with the section on Past service cost gains and losses on settlement (part b).

In applying this, the entity also takes into account any changes in the net defined benefit liability (asset) during the period resulting from contributions or benefit payments.

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Significant Accounting Policies

1.15 Employee benefits (continued)

Other long-term employee benefits

Recognition and measurement

The municipality has an obligation to provide long-term service allowance benefits to all of its employees.

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

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The 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.

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.

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.

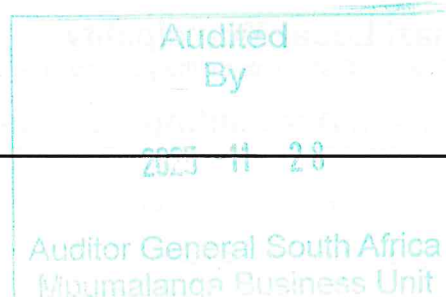
Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

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

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1.16 Provisions and contingencies (continued)

Provisions are not recognised for future operating surplus.

A contingent liability is a possible obligation, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future event(s) not wholly within the control of the entity.

A contingent asset is a possible asset that arises from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the entity.

Contingent assets and contingent liabilities are not recognised but a note disclosure is required if the inflow or outflow of resources is probable. Contingencies are disclosed in note 47.

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:

- a change 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.
- 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;

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.

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.

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.

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Significant Accounting Policies

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.

Sale of goods

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

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

Rendering of services

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

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

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

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

Interest

Revenue arising from the use by others of entity assets yielding interest is recognised when:

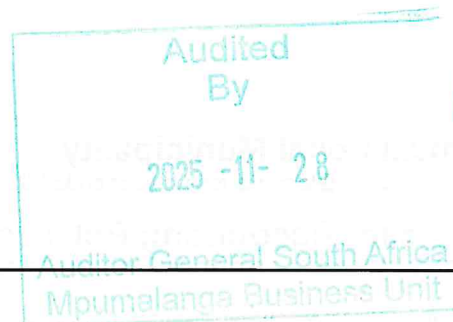
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Nkomazi Local Municipality

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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.

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.

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.

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

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.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

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 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

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.

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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.

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

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

1.20 Investment income

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

1.21 Accounting by principals and agents

Identification

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

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

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

Identifying whether an entity is a principal or an agent

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

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

Binding arrangement

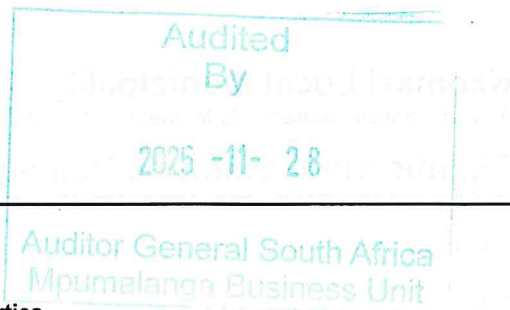
The municipality assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

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

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Significant Accounting Policies



1.21 Accounting by principals and agents (continued)

Assessing which entity benefits from the transactions with third parties

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

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

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

Recognition

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

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

1.22 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.23 Comparative figures

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

1.24 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 changes in net assets 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 changes in net assets.

1.25 Fruitless and wasteful expenditure

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

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of changes in net assets 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 changes in net assets.

1.26 Irregular expenditure

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

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Significant Accounting Policies

1.26 Irregular expenditure (continued)

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

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 Changes in Net Assets and where recovered, it is subsequently accounted for as revenue in the Statement of Changes in Net Assets.

1.27 Segment information

A segment is an activity of an entity:

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

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

Measurement

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

1.28 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 accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01 Jul 2024 to 30 Jun 2027.

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

1.29 Related parties

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

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

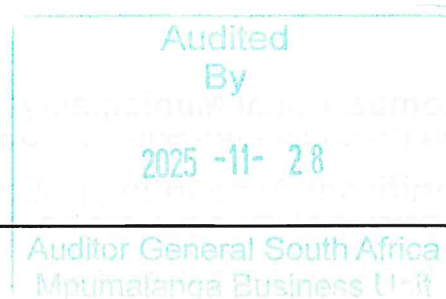
Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

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

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Significant Accounting Policies



1.29 Related parties (continued)

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.

1.30 Events after reporting date

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

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

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

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

1.31 Statutory payables - VAT

Value-Added Tax (VAT) payable to the South African Revenue Service (SARS) arises from statutory requirements in terms of the Value-Added Tax Act. VAT payable represents amounts due to SARS as a result of taxable supplies made by the entity, net of input VAT claimable on qualifying expenditure.

VAT payable is recognised as a financial liability when the transaction giving rise to the obligation occurs and the amount becomes due and payable in accordance with the relevant legislation. The liability is measured at the amount expected to be paid to SARS and is not discounted as it is normally short-term in nature.

Statutory payables are not accounted for as provisions under GRAP 19, because the obligation results from legislation that determines both the timing and amount payable, rather than from uncertainty. As such, VAT payable is recognised as a current liability when the entity has a present statutory obligation and settlement is expected within the entity's normal operating cycle.

Any VAT receivable (input VAT due from SARS) is recognised as a financial asset when it is recoverable and is presented separately from VAT payable.

1.32 Living and non-living resources

Living resources are those resources that undergo biological transformation.

Non-living resources are those resources, other than living resources, that occur naturally and have not been extracted.

Agricultural activity is the management by a municipality of the biological transformation and harvest of biological assets for:

- (a) sale;
- (b) distribution at no charge or for a nominal charge; or
- (c) conversion into agriculture produce or into additional biological assets for sale or distribution at no charge or for a nominal charge.

Biological transformation (for purposes of this Standard) comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a living resource.

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

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Significant Accounting Policies

1.32 Living and non-living resources (continued)

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Recognition

A living resource is recognised 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.

Where the municipality is required in terms of legislation or similar means to manage a living resource, but it does not meet the definition of an asset because control of the resource cannot be demonstrated, relevant information is disclosed in the notes to the annual financial statements.

Measurement at recognition

A living resource that qualifies for recognition as an asset is measured at its cost.

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

The cost of a living resource comprises its purchase price, including import duties and non-refundable purchase taxes, and any costs directly attributable to bringing the living resource to the location and condition necessary for it to be capable of operating in the manner intended by management.

1.33 Value Added Tax

The municipality accounts for Value Added Tax on payment basis.

1.34 Use of estimates

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



Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

2025

2024

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
- iGRAP 22 Foreign Currency Transactions and Advance Consideration - GRAP 104 (as revised): Financial Instruments	01 April 2025 01 April 2025	- Unlikely there will be a material impact - Unable to reliably estimate the impact



Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

Figures in Rand

3. Investment property

	2025			2024		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
	13 315 728	(5 104 467)	8 211 261	15 544 854	(5 028 822)	10 516 032

Reconciliation of investment property - 2025

Investment property

	Opening balance	Disposals	Depreciation	Total
	10 516 032	(2 229 126)	(75 645)	8 211 261

Reconciliation of investment property - 2024

Investment property

	Opening balance	Depreciation	Total
	10 619 830	(103 798)	10 516 032

Pledged as security

No investment property assets were pledged as security.

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.

Other disclosure

There were no operating costs incurred related to the investment property.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

	2025		2024	
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation
Land	193 690 276	(12 402 319)	181 287 957	194 090 276
Buildings	378 323 343	(120 082 216)	258 241 127	367 191 946
Plant and machinery	50 015 172	(26 279 776)	23 735 396	49 027 135
Furniture and fixtures	21 230 352	(12 416 349)	8 814 003	21 029 873
Motor vehicles	98 754 461	(49 726 925)	49 027 536	97 039 678
IT equipment	22 064 096	(13 269 508)	8 794 588	19 483 429
Infrastructure - Electricity	157 422 129	(50 964 006)	106 458 123	151 579 811
Infrastructure - Roads	1 042 189 757	(210 896 624)	831 293 133	939 892 287
Infrastructure - Storm water	60 820 378	(12 303 618)	48 516 760	60 820 378
Infrastructure - Sewerage	46 139 366	(5 450 200)	40 689 166	46 139 366
Infrastructure - Solid waste	33 398 745	(24 021 825)	9 376 920	32 846 734
Infrastructure - Water	2 612 802 653	(562 372 170)	2 050 430 483	2 439 266 303
Total	4 716 850 728	(1 100 185 536)	3 616 665 192	4 418 407 216
			(990 557 287)	3 427 849 929



Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2025

	Opening balance	Additions	Donations / Additions non-cash	Disposals	Depreciation	Impairment loss	Total
Land	181 687 957	-	-	(400 000)	-	-	181 287 957
Buildings	257 360 998	11 131 397	-	-	(9 661 767)	(589 501)	258 241 127
Plant and machinery	27 131 037	988 038	-	-	(4 375 951)	(7 728)	23 735 396
Furniture and fixtures	10 700 808	200 479	-	-	(2 086 056)	(1 228)	8 814 003
Motor vehicles	54 329 481	2 570 984	-	(571 496)	(7 301 433)	-	49 027 536
IT equipment	9 627 215	2 620 224	-	(11 599)	(3 438 684)	(2 568)	8 794 588
Infrastructure - Electricity	104 595 721	5 842 317	-	-	(3 979 915)	-	106 458 123
Infrastructure - Roads	753 000 486	102 297 470	-	-	(24 004 823)	-	831 293 133
Infrastructure - Storm water	49 687 929	-	-	-	(1 171 169)	-	48 516 760
Infrastructure - Sewerage	41 337 562	-	-	-	(648 396)	-	40 689 166
Infrastructure - Solid waste	9 161 240	552 011	-	-	(336 331)	-	9 376 920
Infrastructure - Water	1 929 229 495	172 127 546	1 408 804	-	(52 335 362)	-	2 050 430 483
	3 427 849 929	298 330 466	1 408 804	(983 095)	(109 339 887)	(601 025)	3 616 665 192

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2024

	Opening balance	Additions	Donations / Additions non-cash	Disposals	Adjustments	Depreciation	Impairment loss	Total
Land	181 687 957	-	-	-	-	-	-	181 687 957
Buildings	253 498 886	14 492 614	-	(1 393 632)	198 961	(8 460 694)	(975 137)	257 360 998
Plant and machinery	24 742 430	8 422 109	-	(1 039 580)	(441 035)	(4 428 031)	(124 856)	27 131 037
Furniture and fixtures	5 087 711	8 388 539	-	(55 085)	(97 305)	(2 605 371)	(17 681)	10 700 808
Motor vehicles	47 908 299	9 655 514	1 429 206	(1 639 145)	2 996 010	(6 020 403)	-	54 329 481
IT equipment	9 594 864	3 143 222	-	(248 169)	672	(2 842 356)	(21 018)	9 627 215
Infrastructure - Electricity	92 245 861	16 217 992	-	(371 401)	(1)	(3 496 730)	-	104 595 721
Infrastructure - Roads	680 507 130	90 042 405	5 438 631	(1 727 646)	1 719 411	(22 878 524)	(100 921)	753 000 486
Infrastructure - Storm water	50 953 399	-	-	(81 429)	-	(1 184 041)	-	49 687 929
Infrastructure - Sewerage	34 087 033	7 599 406	-	(48)	2	(295 339)	(53 492)	41 337 562
Infrastructure - Solid waste	9 124 286	349 900	-	-	(1)	(312 945)	-	9 161 240
Infrastructure - Water	1 759 044 226	205 612 078	12 707 688	(357 872)	765 951	(48 441 767)	(100 809)	1 929 229 495
	3 148 482 082	363 923 779	19 575 525	(6 914 007)	5 142 665	(100 966 201)	(1 393 914)	3 427 849 929

Pledged as security

No property, plant and equipment were pledged as security.

Impairment of assets

Buildings	589 501	975 137
Plant and machinery	7 728	124 857
Furniture and fixtures	1 228	17 681
IT equipment	2 568	21 019
Infrastructure - Roads	-	100 921
Infrastructure - Sewerage	-	53 492
Infrastructure - Water	-	100 809
	601 025	1 393 916

Audited
By
2025-1-28
Auditor General South Africa
Mogamang Business Unit

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

2025 2024

4. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2025

	Opening balance	WIP additions	WIP Transfers	Total
Buildings	19 631 258	11 131 397	(78 500)	30 684 155
Infrastructure - Roads	63 095 696	102 297 470	-	165 393 166
Infrastructure - Electricity	-	5 842 317	(5 842 317)	-
Infrastructure - Solid waste	-	552 011	(552 011)	-
Infrastructure - Sewerage	10 490 977	-	-	10 490 977
Infrastructure - Water	538 739 830	173 536 350	(242 169 644)	470 106 536
	631 957 761	293 359 545	(248 642 472)	676 674 834

Reconciliation of Work-in-Progress 2024

	Opening balance	WIP additions	WIP Transfers	Total
Buildings	39 153 155	14 492 614	(34 014 511)	19 631 258
Infrastructure - Roads	40 651 774	90 042 405	(67 598 483)	63 095 696
Infrastructure - Electricity	-	16 217 992	(16 217 992)	-
Infrastructure - Solid waste	-	349 900	(349 900)	-
Infrastructure - Sewerage	20 132 083	7 599 406	(17 240 512)	10 490 977
Infrastructure - Water	570 164 971	205 612 078	(237 037 219)	538 739 830
	670 101 983	334 314 395	(372 458 617)	631 957 761

Some of the work in progress construction projects are taking significantly longer period than expected due to delays by contractors or sub-contractors with mechanical works, additional scope of work, heavy rains, hard rock, underground water and electrical connections by Eskom. The carrying value of the construction projects that are taking significantly longer period than expected is R270,856,994.

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Contracted services	35 472 607	42 550 762
Inventory - materials & supplies	17 484 885	19 761 545
General expenses	1 097 412	445 673
	54 054 904	62 757 980

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.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

	2025	2024
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5. Intangible assets

	2025			2024		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	3 420 560	(2 343 405)	1 077 155	3 241 443	(1 969 401)	1 272 042

Reconciliation of intangible assets - 2025

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	1 272 042	186 944	(2 114)	(379 717)	1 077 155

Reconciliation of intangible assets - 2024

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	1 221 367	453 295	(43 369)	(359 251)	1 272 042

Pledged as security

No intangible assets were pledged as security.

6. Heritage assets

	2025			2024		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical monuments	1 621 944	-	1 621 944	1 621 944	-	1 621 944

Reconciliation of heritage assets 2025

	Opening balance	Total
Historical monuments	1 621 944	1 621 944

Reconciliation of heritage assets 2024

	Opening balance	Total
Historical monuments	1 621 944	1 621 944

Pledged as security

No heritage assets were pledged as security.



Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

	2025	2024
7. Operating lease liability (asset)		
Current assets	(70 100)	-
Non-current liabilities	205 851	-
Current liabilities	-	70 838
	135 751	70 838

8. Payables from exchange transactions

Trade payables	352 020 410	249 617 110
Debtors with credit balances	17 582 611	14 305 632
Salary suspense accounts - Third parties	83 566 460	68 997 751
Prepayments-prepaid electricity	2 044 456	923 971
Other creditors	2 268 122	-
VAT payable - Output Accrual	14 755 657	23 685 539
Statutory payable	8 083 831	-
Staff bonus accrual	19 731 769	18 638 651
Surety	1 556 836	39 013 607
Retentions	79 411 811	63 305 076
Deposits	8 079 325	7 722 815
	589 101 288	486 210 152

9. Employee benefit obligations

Defined benefit plan

The municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical aid scheme.

In-service members that qualify for post-employment medical aid benefit are entitled to a subsidy of 60% of the contribution payable. All current continuation members receive a 60% subsidy.

An actuarial valuation has been performed of the municipality's liability in respect of benefits to eligible retirees and retired employees of the municipality.

In accordance with the requirements of GRAP25, we have applied the Projected Unit Credit Method to determine the liabilities. The projected liability is based on actuarial assumptions about the future. These assumptions are set to be realistic and individually justifiable. However, the actual experience of the beneficiaries of the municipality will vary from these assumptions. These variations emerge at each valuation as actuarial gains or losses.

The approach taken in this valuation has been made with reference to the guidelines issued by the Actuarial Society of South Africa (ASSA), in particular, the Advisory Practice Note 207 as issued by ASSA.

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

Opening balance	14 620 010	13 155 952
Contributions by employer	(521 008)	(608 615)
Net expense recognised in the statement of changes in net assets	(3 791 436)	2 072 673
	10 307 566	14 620 010

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

2025 2024

9. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance are as follows:

Service cost	198 190	175 162
- Current service cost	198 190	175 162
Interest cost	1 729 003	1 649 998
Actuarial (gains) / losses	(5 718 629)	247 513
	(3 791 436)	2 072 673

Key assumptions used

Assumptions used at the reporting date:

Discount rate	10,75 %	12,21 %
Consumer price inflation	4,61 %	6,28 %
Health care cost inflation	6,11 %	7,78 %
Net discount rate	4,38 %	4,11 %



Long service awards

Long service benefits are awarded in the form of a number of leave days awarded once an employee has completed a certain number of years in service. The valuation was performed in line with GRAP 25. We applied the Projected Unit Credit Method to determine the liabilities. The projected liability is based on actuarial assumptions about the future. These assumptions are set to be realistic and individually justifiable. However, the actual experience of the beneficiaries of the municipality will vary from these assumptions. These variations emerge at each valuation as actuarial gains or losses.

The approach taken in this valuation has been made with reference to the guidelines issued by the Actuarial Society of South Africa (ASSA), in particular, the Advisory Practice Note 207 as issued by ASSA.

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

Opening balance	40 411 742	35 026 452
Service cost	3 793 902	3 352 986
Interest cost	3 983 372	3 657 938
Actuarial (gains) / losses	63 241	2 228 346
Expected benefits payments	(5 408 503)	(3 853 980)
	42 843 754	40 411 742

Key assumptions used

Assumptions used at the reporting date:

Discount rate	9,18 %	10,53 %
Consumer price inflation	3,55 %	4,94 %
Salary increase rate	4,55 %	5,94 %
Net discount rate	4,42 %	4,33 %
Normal retirement age	65	65

Actuarial (gains) / losses

Defined benefit plan	(5 718 629)	247 513
Long service awards	63 241	2 228 346
	(5 655 388)	2 475 859

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

	2025	2024
9. Employee benefit obligations (continued)		
Current liability of employee benefit obligation		
Defined benefit plan	537 125	908 395
Long service awards	6 453 750	5 151 778
	6 990 875	6 060 173
Non-current liability of employee benefit obligation		
Defined benefit plan	9 770 441	13 711 615
Long service awards	36 390 004	35 259 964
	46 160 445	48 971 579

10. Living resources

Living resources not recognised

The municipality did not recognise the following living resources, due to the definition of asset not being met.

Type of living resources

Mammals

Birds

Key judgements and assumptions applied

The municipality holds the living resources to meet its mandate in acting as custodian to conserve the resources entrusted to it and to manage the environment where the resources are situated as a whole. Game animals in Marloth Park and Lion Spruit are left to roam freely. The municipality only restricts the movement of the animals by fencing off Marloth Park and Lion Spruit. Though the areas have fences, animal migration still occurs for some animals and they do from time to time jump over or burrow under fences. The municipality does from time to time move animals from the residential area (Marloth Park) to park area (Lion Spruit) to do culling, in order to comply with the number of animals that should be in the whole environment as required by Mpumalanga Tourism and Parks Agency. The municipality does not manage the physical condition of each individual animal within the environment. Therefore, as a result the municipality has concluded that it does not control these living resources by applying paragraph 23 of GRAP 110.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

	2025	2024
11. Inventories		
Land held for distribution	35 694 585	35 694 585
Consumable stores	6 193 862	6 862 812
Water for distribution	238 981	186 649
	42 127 428	42 744 046

The municipality has reclassified land which was verified to have private properties but still have legal ownership. The land has been reclassified from PPE Land and Investment Land to Inventory after council resolved that the municipality should assist with the transfer of title deeds to the beneficiaries.

The total inventory of 42,127,428 (2024: 42,744,046) was carried at fair value less cost to sell.

The amount of write-down of inventories recognised as expense is 11,806 (2024: 27,183).

The amount of inventories consumed and recognised as an expense is 59,068,899 (2024: 58,954,278).

Inventory pledged as security

No inventories were pledged as security

Water for distribution

Opening balance	186 649	167 924
Movement	52 332	18 725
Closing balance	238 981	186 649

12. Receivables from exchange transactions

Deposits	35 462 031	30 713 211
Sundry debtors	3 491 782	3 491 782
Pre-paid electricity accrued	-	3 053 752
Interest receivable	252 873	273 766
Input VAT Accrual	87 420 220	87 185 354
	126 626 906	124 717 865
Non-current assets	35 462 031	30 713 211
Current assets	91 164 875	94 004 654
	126 626 906	124 717 865

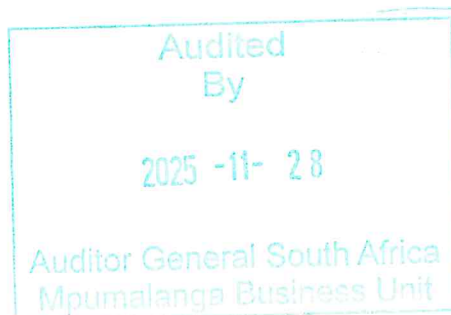
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Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

	2025	2024
13. Statutory receivables		
Traffic fines	120 007 082	117 913 575
Allowance for impairment - Traffic fines	(113 093 635)	(111 619 975)
VAT receivable	-	1 656 114
Property rates	105 911 722	101 562 100
Allowance for impairment - Property rates	(97 012 989)	(92 653 907)
	15 812 180	16 857 907
Statutory receivables pledged as security		
No statutory receivables were pledged as security		
Statutory receivables impaired		
As of 30 June 2025, Statutory receivables of 225 918 804 (2024: 219 475 675) were impaired and provided for.		
The amount of allowance for impairment was 210 106 624 as of 30 June 2025 (2024: 204 273 882).		
The ageing of amounts past due and impaired is as follows:		
Over 1 month	225 918 804	219 475 675
Reconciliation of provision for impairment of statutory receivables		
Opening balance	(204 273 882)	(123 472 745)
Contributions to allowance	(5 832 742)	(80 801 137)
	(210 106 624)	(204 273 882)
Net rates		
Current	779 399	630 059
30 days	432 559	595 646
60 days	249 643	306 821
90 + days	7 437 131	7 375 667
	8 898 732	8 908 193
Net traffic fines		
Over 1 month	6 913 447	6 293 600
VAT receivable		
VAT is payable on the payment basis. Only once payment is received from debtors, the VAT portion of the receipt is paid over to SARS with input VAT only claimed when payment is made to creditors.		
14. Receivables from non-exchange transactions		
Overpayments	1 759 655	2 064 038
The municipality has made overpayment on employees' salaries and long service awards.		
Current assets	1 759 655	2 064 038



Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

	2025	2024
15. Consumer debtors		
Gross balances		
Electricity	25 527 052	37 915 968
Water	21 612 751	28 588 208
Waste water	4 343 255	5 749 405
Refuse	5 297 952	4 736 605
Other	10 328 396	13 837 914
	67 109 406	90 828 100
Less: Allowance for impairment		
Electricity	(16 929 020)	(28 035 367)
Water	(13 823 404)	(20 977 531)
Waste water	(2 030 554)	(4 911 221)
Refuse	(3 072 228)	(2 954 520)
Other	(6 907 978)	(6 975 283)
	(42 763 184)	(63 853 922)
Net balance		
Electricity	8 598 032	9 880 601
Water	7 789 347	7 610 677
Waste water	2 312 701	838 184
Refuse	2 225 724	1 782 085
Other	3 420 418	6 862 631
	24 346 222	26 974 178
Electricity		
Current	2 173 356	2 098 246
30 days	605 985	348 958
60 days	241 838	139 253
90 + days	5 576 853	7 294 144
	8 598 032	9 880 601
Water		
Current	1 157 616	762 306
30 days	410 091	236 190
60 days	256 755	184 649
90 + days	5 964 885	6 427 532
	7 789 347	7 610 677
Waste water		
Current	949 065	71 935
30 days	80 975	24 350
60 days	52 700	16 962
90 + days	1 229 961	724 937
	2 312 701	838 184
Refuse		
Current	428 107	259 154
30 days	111 129	95 480
60 days	75 484	66 538
90 + days	1 611 004	1 360 913
	2 225 724	1 782 085

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Notes to the Annual Financial Statements

	2025	2024
15. Consumer debtors (continued)		
Other		
Current	293 784	2 474 163
30 days	113 665	95 798
60 days	76 531	70 623
90 + days	2 936 438	4 222 047
	3 420 418	6 862 631
Reconciliation of allowance for impairment		
Balance at beginning of the year	(63 853 922)	(5 472 840)
Contributions to allowance	-	(58 381 082)
Reversal of allowance	21 090 738	-
	(42 763 184)	(63 853 922)

Consumer debtors pledged as security

No consumer debtors were pledged as security

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Consumer debtors impaired

As of 30 June 2025, consumer debtors of 67 109 406 (2024: 90 828 100) were impaired and provided for.

The amount of the provision was 42 763 184 as of s (2024: 63 853 922).

The ageing of these loans is as follows:

Over 1 month	67 109 406	90 828 100
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Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

2025 2024

16. Cash and cash equivalents

Other short term liability consist of:

Cash on hand	-	2 000
Cash book balance	(709 113)	(14 801 676)
Short-term deposits	5 001 000	5 000 000
	4 291 887	(9 799 676)

The municipality has a cession of R5,000,000 as security in respect of ABSA investment for the guarantees that have been issued to Eskom by Absa bank.

The remaining bank statement balance held by the municipality is available for use by the municipality.

Credit quality of cash at bank and short-term deposits, excluding cash on hand

The credit quality of cash at bank and short-term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Short-term deposits consists of:

ABSA account no 2068718251	5 000 000	5 000 000
Standard bank account no 318510316	1 000	-
	5 001 000	5 000 000

The municipality had the following bank accounts

Account number / description	2025			2024		
	30 June 2025	30 June 2025	30 June 2025	30 June 2024	30 June 2024	30 June 2024
	Bank statement balance	Cash book balance	Difference	Bank statement balance	Cash book balance	Difference
STANDARD BANK - Current account - 032610335	2 341 929	(635 231)	(2 977 160)	(13 253 206)	(15 592 265)	(2 339 059)
ABSA BANK - Current account - 1650 000 087	448 621	(73 882)	(522 503)	1 042 729	790 589	(252 140)
Total	2 790 550	(709 113)	(3 499 663)	(12 210 477)	(14 801 676)	(2 591 199)

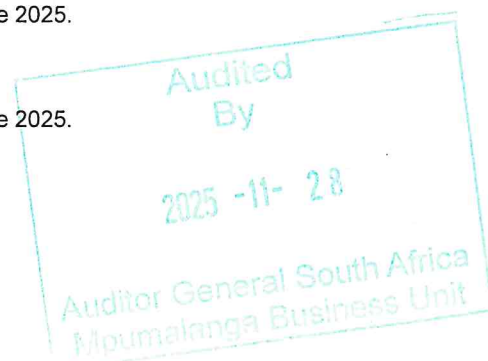
Differences explanation

Standard bank – Current account

The difference is mainly attributable to unallocated deposits as at 30 June 2025.

ABSA bank – Current account

The difference is mainly attributable to unallocated deposits as at 30 June 2025.



Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

	2025	2024
17. Finance lease obligation		
Minimum lease payments due		
- within one year	2 926 264	1 835 044
- in second to fifth year inclusive	-	1 835 044
	<u>2 926 264</u>	<u>3 670 088</u>
less: future finance charges	(529 876)	(918 642)
Present value of minimum lease payments	<u>2 396 388</u>	<u>2 751 446</u>
Non-current liabilities	-	1 573 787
Current liabilities	2 396 389	1 177 658
	<u>2 396 389</u>	<u>2 751 445</u>

The lease term is 3 years and 2 years; the effective borrowing rates are 29.35% and 55.68%. Interest rates are fixed at the contract date. Obligations under finance leases are secured by the lessor's title to the leased asset.

Defaults and breaches

There was no default on principal and interest repayments. None of the terms and conditions were re-negotiated.

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant	13 911 019	-
LG SETA Grant	1 377 885	779 635
	<u>15 288 904</u>	<u>779 635</u>

Movement during the year

Balance at the beginning of the year	779 635	33 827 146
Additions during the year	358 142 815	372 693 936
Income recognition during the year	(343 633 546)	(405 741 447)
	<u>15 288 904</u>	<u>779 635</u>

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

	2025	2024		
19. Provisions				
Reconciliation of provisions - 2025				
	Opening Balance	Increase / (reduction) in provisions	Interest charge	Total
Landfill Site	28 970 037	1 265 764	3 005 281	33 241 082
Performance Bonus	691 314	100 647	-	791 961
Accumulated Leave	69 831 624	3 285 803	-	73 117 427
	99 492 975	4 652 214	3 005 281	107 150 470
Reconciliation of provisions - 2024				
	Opening Balance	Increase / (reduction) in provisions	Interest charge	Total
Landfill Site	25 025 805	1 191 147	2 753 085	28 970 037
Performance Bonus	624 669	66 645	-	691 314
Accumulated Leave	62 704 723	7 126 901	-	69 831 624
	88 355 197	8 384 693	2 753 085	99 492 975
Non-current liabilities			32 510 490	28 337 302
Current liabilities			74 639 980	71 155 673
			107 150 470	99 492 975

Landfill site provision has been provided after a specialist consultancy in environmental accounting, was appointed by the municipality to assist with the valuation of the required provision for the Hectorspruit, Marloth Park, Komatipoort, Kamaqhekeza and Steenbok landfill for the reporting period to reflect best reliable estimate. The municipality has an obligation to rehabilitate its landfill sites in terms of its license stipulations. The amount of the provision is recognised at the present value of the expenditure expected to be required to settle the obligation and is carried at amortised cost. The timing of the outflow is uncertain, as well as the relating amounts due to discounting and changes in inflation rates.

Performance bonuses are payable to eligible employees provided that the employee has met the targets as required in their performance contracts. The provision is calculated at 9.5% of the total remuneration in terms of the performance agreements at the reporting date. The timing of the outflow is uncertain, as well as the relating amounts due to that the section 57 senior managers have to be assessed first to indicate if they have met their targets as required in their performance contracts.

Employees are obliged to take at least 16 working days of his/her 24 annual leave days of which at least 10 working days shall be taken consecutively in respect of every completed year of service. An employee must take annual leave not later than six months after the end of the annual leave cycle. The 8 days may be accumulated to a maximum of 48 days. The municipality pays any unused leave up to a maximum of 48 days to employees upon retirement, death or resignation (subject to compliance with notice of termination of employment as required by Basic Conditions of Employment Act). The timing of the outflow is uncertain, as well as the relating amounts due to uncertainty of when the employees are going to retire, die or resign.

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Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

	2025	2024
20. Revenue		
Service charges	237 224 365	220 278 819
Construction contracts	3 787 000	14 400 000
Rental of facilities and equipment	4 872 472	5 134 500
Interest received (trading)	3 836 770	4 117 492
Licences and permits	1 504 695	2 174 346
Recoveries	6 187 189	-
Operational revenue	8 977 238	10 002 135
Interest received (external)	7 296 440	15 426 455
Property rates	125 303 979	119 461 777
Interest - Property rates	7 703 865	12 167 295
Government grants & subsidies	1 177 716 545	1 179 876 447
Public contributions and donations	1 408 804	19 575 525
Fines, Penalties and Forfeits	3 358 835	2 463 579
	1 589 178 197	1 605 078 370
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	237 224 365	220 278 819
Construction contracts	3 787 000	14 400 000
Rental of facilities and equipment	4 872 472	5 134 500
Interest received (trading)	3 836 770	4 117 492
Licences and permits	1 504 695	2 174 346
Recoveries	6 187 189	-
Operational revenue	8 977 238	10 002 135
Interest received (external)	7 296 440	15 426 455
	273 686 169	271 533 747
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	125 303 979	119 461 777
Interest - Property rates	7 703 865	12 167 295
Transfer revenue		
Government grants & subsidies	1 177 716 545	1 179 876 447
Public contributions and donations	1 408 804	19 575 525
Fines, Penalties and Forfeits	3 358 835	2 463 579
	1 315 492 028	1 333 544 623
21. Inventory consumed		
Water	3 993 796	669 443
Consumables	55 075 103	58 284 835
	59 068 899	58 954 278
22. Service charges		
Sale of electricity	178 571 785	159 497 612
Sale of water	37 481 747	41 216 578
Solid waste	13 511 197	11 510 246
Waste water	7 659 636	8 054 383
	237 224 365	220 278 819

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

	2025	2024
23. Rental of facilities and equipment		
Facilities and equipment		
Rental of facilities	4 872 472	5 134 500
24. Fines, Penalties and Forfeits		
Illegal Connections Fines	503 535	281 560
Law Enforcement Fines	2 855 300	2 182 000
Overdue Books Fines	-	19
	3 358 835	2 463 579
25. Construction contract expense		
Electrification of rural households	3 787 000	15 744 803
26. Licences and permits		
Trading	1 504 695	2 174 346
27. Lease rentals on operating lease		
Premises		
Contractual amounts	5 500 516	5 021 605
Plant and equipment		
Contractual amounts	1 296 924	1 516 444
	6 797 440	6 538 049
28. Recoveries and operational revenue		
Legal fees recovered	6 187 189	-
Other revenue	8 977 238	10 002 135
	15 164 427	10 002 135
29. Investment revenue		
Interest revenue		
Bank	4 535 616	12 304 508
Investment	2 760 824	3 121 947
	7 296 440	15 426 455

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Nkomazi Local Municipality

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Notes to the Annual Financial Statements

	2025	2024
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30. Property rates

Rates received

Residential	54 331 376	55 516 745
Business	39 212 682	35 162 356
Government	14 627 694	13 170 808
Agriculture	14 965 609	13 635 685
Other	2 166 618	1 976 183
	125 303 979	119 461 777

Valuations

Residential	9 682 646 025	8 299 969 000
Business	2 329 278 000	2 327 038 000
Government	907 645 000	1 191 757 100
Agriculture	7 602 384 000	7 389 987 000
Other	1 398 921 610	2 565 085 510
	21 920 874 635	21 773 836 610

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2022. Annual valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

31. Transfer and subsidies

Other subsidies

Other transfers	13 130 507	18 689 149
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Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

	2025	2024
32. Government grants & subsidies		
Operating grants		
Equitable share	837 870 000	788 535 000
Municipal Infrastructure Grant	246 496 980	269 609 468
Financial Management Grant	1 800 000	1 770 000
LG SETA Grant	2 187 565	3 720 979
Water Service Infrastructure Grant	30 000 000	30 000 000
Expanded Public Works Programme	2 436 000	3 510 000
Municipal Disaster Recovery Grant	51 926 000	66 501 000
Regional Bulk Infrastructure Grant	5 000 000	-
Municipal Disaster Relief Grant	-	16 230 000
	1 177 716 545	1 179 876 447
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
Municipal Infrastructure Grant		
Balance unspent at beginning of year	-	16 675 468
Current-year receipts	260 408 000	252 934 000
Conditions met - transferred to revenue	(246 496 981)	(269 609 468)
	13 911 019	-
Expanded Public Works Programme		
Current-year receipts	2 436 000	3 510 000
Conditions met - transferred to revenue	(2 436 000)	(3 510 000)
	-	-
Financial Management Grant		
Current-year receipts	1 800 000	1 770 000
Conditions met - transferred to revenue	(1 800 000)	(1 770 000)
	-	-
LG SETA Grant		
Balance unspent at beginning of year	779 635	921 678
Current-year receipts	2 785 815	3 578 936
Conditions met - transferred to revenue	(2 187 565)	(3 720 979)
	1 377 885	779 635

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Notes to the Annual Financial Statements

	2025	2024
32. Government grants & subsidies (continued)		
Water Service Infrastructure Grant		
Current-year receipts	30 000 000	30 000 000
Conditions met - transferred to revenue	(30 000 000)	(30 000 000)
	-	-
Regional Bulk Infrastructure Grant		
Current-year receipts	5 000 000	-
Conditions met - transferred to revenue	(5 000 000)	-
	-	-
Municipal Disaster Relief Grant		
Balance unspent at beginning of year	-	16 230 000
Conditions met - transferred to revenue	-	(16 230 000)
	-	-
Municipal Disaster Recovery Grant		
Current-year receipts	51 926 000	66 501 000
Conditions met - transferred to revenue	(51 926 000)	(66 501 000)
	-	-
Allocation-in-kind grants		
Regional Bulk Infrastructure Grant	4 000 000	5 000 000
Integrated National Electrification Grant	19 938 000	21 801 000
Neighbourhood Development Partnership Grant (technical assistance)	1 500 000	100 000
	25 438 000	26 901 000

Regional Bulk Infrastructure Grant

The purpose of the grant is to develop new bulk water infrastructure of regional significance that connects water resources to infrastructure serving areas across municipal boundaries and large bulk infrastructure serving numerous communities over a large area within Nkomazi Municipality. To implement bulk infrastructure with a potential of addressing water conservation and water demand management (WC/WDM) projects or facilitate and contribute to the implementation of local WC/WDM projects that will directly impact on bulk infrastructure requirements.

Integrated National Electrification Grant

The purpose of the grant is to provide capital subsidies to municipalities to address the electrification backlog of all existing and planned residential dwellings (including informal settlements, farm dwellers, new and existing dwellings) and the installation of relevant bulk infrastructure.

Neighbourhood Development Partnership Grant (technical assistance)

The purpose of the grant is to plan, catalyse, and invest in targeted locations in order to attract and sustain third party capital investments aimed at spatial transformation, that will improve the quality of life, and access to opportunities for residents in South Africa's targeted locations, under-served neighbourhoods, generally townships and rural towns.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

					2025	2024
32. Government grants & subsidies (continued)						
Government grants and subsidies per vote						
2025	Executive & Council	Budget & Treasury Office	Corporate Services	Infrastructure Development	Economic Development & Tourism	Total
Municipal Infrastructure Grant	-	-	-	260 408 000	-	260 408 000
Financial Management Grant	-	1 800 000	-	-	-	1 800 000
LG SETA Grant	-	-	2 785 815	-	-	2 785 815
Integrated National Electrification Grant	-	-	-	3 787 000	-	3 787 000
Water Services Infrastructure Grant	-	-	-	30 000 000	-	30 000 000
Municipal Disaster Recovery Grant	-	-	-	51 926 000	-	51 926 000
Expanded Public Works Programme	-	-	-	-	2 436 000	2 436 000
Regional Bulk Infrastructure Grant	-	-	-	5 000 000	-	5 000 000
Subtotal	-	1 800 000	2 785 815	351 121 000	2 436 000	358 142 815
	-	1 800 000	2 785 815	351 121 000	2 436 000	358 142 815
2024	Executive & Council	Budget & Treasury Office	Corporate Services	Infrastructure Development	Economic Development & Tourism	Total
Municipal Infrastructure Grant	-	-	-	252 934 000	-	252 934 000
Financial Management Grant	-	1 770 000	-	-	-	1 770 000
LG SETA Grant	-	-	3 578 936	-	-	3 578 936
Integrated National Electrification Grant	-	-	-	14 400 000	-	14 400 000
Water Services Infrastructure Grant	-	-	-	30 000 000	-	30 000 000
Municipal Disaster Recovery Grant	-	-	-	66 501 000	-	66 501 000
Expanded Public Works Programme	-	-	-	-	3 510 000	3 510 000
Subtotal	-	1 770 000	3 578 936	363 835 000	3 510 000	372 693 936
	-	1 770 000	3 578 936	363 835 000	3 510 000	372 693 936

33. Public contributions and donations

Public contributions and donations	1 408 804	19 575 525
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The municipality has received donation of moveable asset and infrastructure assets to the value disclosed above.

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Notes to the Annual Financial Statements

	2025	2024
34. Employee related costs		
Basic	428 354 614	408 808 052
Bonus	35 257 081	33 030 790
Medical aid	32 993 406	30 112 562
UIF	2 990 498	3 038 972
Other payroll levies	203 635	215 654
Pension fund contributions	80 951 410	75 779 597
Travel allowances	41 051 341	36 961 642
Overtime payments	58 710 073	84 606 093
Long-service awards	7 615 897	6 301 344
Housing benefits and other allowances	8 917 056	6 472 466
Standby allowance	29 236 091	29 691 737
	726 281 102	715 018 909

Remuneration of Municipal Manager

Annual Remuneration	915 241	1 101 003
Travel Allowance	273 595	265 740
Contributions to UIF, Medical aid and Pension Fund	58 698	153 008
	1 247 534	1 519 751

Remuneration of Chief Finance Officer

Annual Remuneration	851 660	952 211
Travel Allowance	218 966	258 966
Contributions to UIF and Pension Fund	2 267	81 179
	1 072 893	1 292 356

Remuneration of Director Economic Development and Tourism

Annual Remuneration	765 439	781 043
Travel Allowance	144 000	169 600
Contributions to UIF, Medical aid and Pension Fund	170 030	100 787
	1 079 469	1 051 430

Remuneration of Director Infrastructure Development

Annual Remuneration	815 279	725 378
Travel Allowance	218 400	163 800
Contributions to UIF and Medical aid	39 566	34 682
	1 073 245	923 860

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

	2025	2024
34. Employee related costs (continued)		
Remuneration of director planning and development		
Annual Remuneration	824 987	803 822
Travel Allowance	218 966	258 966
Contributions to UIF, Medical aid and Pension Fund	28 806	89 912
	1 072 759	1 152 700
Remuneration of Director Community Services		
Annual Remuneration	756 214	865 468
Travel Allowance	120 000	179 884
Contributions to UIF, Medical aid and Pension Fund	200 987	139 360
	1 077 201	1 184 712
Remuneration of Director Corporate Services		
Annual Remuneration	787 863	275 285
Travel Allowance	144 000	53 784
Contributions to UIF, Medical aid and Pension Fund	169 701	46 091
	1 101 564	375 160

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Notes to the Annual Financial Statements

	2025	2024
35. Remuneration of councillors		
Executive Mayor	1 079 959	1 044 048
Chief Whip	820 331	800 274
Mayoral Committee Members	5 690 253	5 571 277
Speaker	873 789	842 068
Other Councillors' remuneration	11 207 779	12 047 989
Other Councillors' to medical aid and pension fund	2 138 721	2 356 163
Other Councillors' travel and other allowances	7 629 601	8 457 648
	29 440 433	31 119 467
Executive Mayor		
Remuneration	645 604	618 628
Travel and other allowances	296 112	294 626
Contributions to medical aid and pension fund	138 243	130 794
	1 079 959	1 044 048
Speaker		
Remuneration	504 373	485 110
Travel and other allowances	252 358	246 192
Contributions to medical aid and pension fund	117 058	110 766
	873 789	842 068
Chief Whip		
Remuneration	452 725	439 751
Travel and other allowances	239 614	234 476
Contributions to medical aid and pension fund	127 992	126 047
	820 331	800 274
Members of Mayoral Committee		
Remuneration	3 526 268	3 386 208
Travel and other allowances	1 593 642	1 639 138
Contributions to medical aid and pension fund	570 343	545 931
	5 690 253	5 571 277
36. Depreciation and amortisation		
Property, plant and equipment	109 339 889	100 966 201
Investment property	75 646	103 798
Intangible assets	379 715	359 250
	109 795 250	101 429 249

Nkomazi Local Municipality

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Notes to the Annual Financial Statements

	2025	2024
37. Impairment loss		
Impairments		
Property, plant and equipment	601 025	1 393 914
The events and circumstances that led to the recognition of the impairment of assets was evidence of damage. The recoverable amount or [recoverable service amount] of the asset was based on its fair value less costs to sell.		
Refer to Property, Plant and Equipment Note 4 for breakdown of main classes of assets affected by impairment losses in the current and prior year.		
Fair value less cost to sell		
Fair value less costs to sell is based on the best information available to reflect the amount that an entity could obtain, at reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. In determining this amount, an entity could consider the outcome of recent transactions for similar assets within the same industry. Fair value less costs to sell does not reflect a forced sale, unless management is compelled to sell immediately.		
38. Finance costs		
Finance leases	1 271 273	979 871
Interest paid	15 964 951	1 868 369
	17 236 224	2 848 240
39. Auditors' remuneration		
Fees	7 142 144	6 600 442
40. Debt impairment		
Contributions /(reversal) of allowance	(15 257 995)	139 182 220
Bad debts written off	24 969 983	27 137 936
	9 711 988	166 320 156



Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

	2025	2024
41. Operational expenditure		
Advertising	1 164 992	1 586 458
Auditors' remuneration	7 142 144	6 600 442
Bank charges	1 416 323	426 064
Commission paid	854 605	2 288 422
Entertainment	6 205	40 405
Insurance	3 598 870	5 892 273
IT expenses	8 222 150	13 170 901
Levies	13 142 934	13 134 529
Postage and courier	159 702	207 475
Printing and stationery	47 750	424 118
Uniform and protective clothing	3 139 035	9 184 917
Subscriptions and membership fees	-	22 253
Telephone and fax	7 989 817	6 569 727
Travel - local	9 096 865	14 193 417
Utilities	108 445 387	95 296 345
Learnership and internship	2 731 565	4 906 698
Travel and Subsistence - travel claims	30 214 734	44 024 978
Ward committees	3 928 000	3 905 000
Other expenses	5 459 697	12 007 103
	206 760 775	233 881 525
42. Bulk purchases		
Electricity - Eskom	150 987 850	127 600 781
43. Contracted services		
Outsourced Services		
Alien Vegetation Control	115 840	80 204
Animal Care	1 907 531	95 000
Burial Services	237 065	292 850
Business and Advisory	64 380	5 630 450
Catering Services	2 431 868	3 397 336
Hygiene Services	390 341	274 608
Mini Dumping Sites	11 185 684	12 667 467
Refuse Removal	125 242	305 367
Security Services	58 142 168	62 093 615
Sewerage Services	82 200	140 527
Consultants and Professional Services		
Business and Advisory	19 917 807	25 555 561
Infrastructure and Planning	712 867	559 226
Laboratory Services	141 352	-
Legal Cost	40 785 952	50 419 573

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

	2025	2024
43. Contracted services (continued)		
Contractors		
Artists and Performers	17 500	181 850
Electrical	-	101 940
Employee Wellness	930 209	1 258 666
Graphic Designers	-	150 600
Interior Decorator	110 083	392 750
Maintenance of Buildings and Facilities	11 289 252	3 137 072
Maintenance of Transport and Other assets	12 997 671	25 172 030
Maintenance of Roads	-	42 368 394
Tracing Agents and Debt Collectors	-	1 142 273
Traffic and Street Lights	255 289	373 468
Transportation - Fuel & Oil	24 242 696	26 575 185
Stage and Sound Crew	151 200	356 196
Fleet management cost	1 097 412	531 337
	187 331 609	263 253 545
44. Cash generated from operations		
Surplus (deficit)	74 834 200	(154 674 081)
Adjustments for:		
Depreciation and amortisation	109 795 250	101 429 249
(Gain) / Loss on sale of assets and liabilities	(8 667 188)	6 957 375
Impairment deficit	601 025	1 393 914
Debt impairment	9 711 988	166 320 156
Movements in operating lease assets and accruals	64 913	(140 314)
Movements in retirement benefit assets and liabilities	(1 880 432)	6 849 348
Movements in provisions	7 657 495	11 137 778
Inventory losses or write-downs	11 806	(27 183)
Public contributions and donations (Assets non-cash)	(1 408 804)	(21 082 525)
Retentions & Surety (Assets Non-Cash)	(17 018 245)	(22 078 304)
Prior period journal processed to accumulated surplus	-	(1 030 699)
Changes in working capital:		
Inventories	604 812	(382 438)
Receivables from exchange transactions	(1 909 041)	(19 300 246)
Consumer debtors	(7 084 032)	(139 818 348)
Statutory receivables	1 045 727	93 630 641
Receivables from non-exchange transactions	304 383	2 606 658
Payables from exchange transactions	102 891 137	219 596 096
Unspent conditional grants and receipts	14 509 269	(33 047 511)
	284 064 263	218 339 566

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Nkomazi Local Municipality

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Notes to the Annual Financial Statements

	2025	2024
45. Financial instruments disclosure		
Categories of financial instruments		
2025		
Financial assets		
	At amortised cost	Total
Receivables from exchange transactions	126 626 906	126 626 906
Consumer debtors	24 346 222	24 346 222
Cash and cash equivalents	4 291 887	4 291 887
Operating lease asset	70 100	70 100
	155 335 115	155 335 115
Financial liabilities		
	At amortised cost	Total
Trade and other payables from exchange transactions	455 824 039	455 824 039
Operating lease liability	205 851	205 851
Finance lease liability	2 396 389	2 396 389
	458 426 279	458 426 279
2024		
Financial assets		
	At amortised cost	Total
Receivables from exchange transactions	124 717 865	124 717 865
Consumer debtors	26 974 178	26 974 178
	151 692 043	151 692 043
Financial liabilities		
	At amortised cost	Total
Trade and other payables from exchange transactions	383 344 147	383 344 147
Other short term liability	9 799 676	9 799 676
Operating lease liability	70 838	70 838
Finance lease liability	2 751 445	2 751 445
	395 966 106	395 966 106

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

	2025	2024
46. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	16 077 751	7 518 074
• Infrastructure	141 760 348	276 823 944
	157 838 099	284 342 018
Total capital commitments		
Already contracted for but not provided for	157 838 099	284 342 018
Authorised operational expenditure		
Already contracted for but not provided for		
• Expenditure	71 046 527	149 186 436
Total operational commitments		
Already contracted for but not provided for	71 046 527	149 186 436
Total commitments		
Total commitments		
Authorised capital expenditure	157 838 099	284 342 018
Authorised operational expenditure	71 046 527	149 186 436
	228 884 626	433 528 454
Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	4 209 369	1 204 706
- in second to fifth year inclusive	5 612 492	-
	9 821 861	1 204 706

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of three to five years and rentals are escalated by 6% & 5% per annum. In terms of the lease agreements the municipality has the option to renew the lease at the end of the lease period under the new terms and conditions, and/or the terms and conditions of the original lease agreement. No contingent rent is payable.

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Notes to the Annual Financial Statements

2025

2024

47. Contingencies

Contingent liabilities

Cases

2025

Valor IT - Claim of R5,034,960 for breach of contract. The matter has been referred to the municipality's legal representative and the timing of when the matter will be concluded is uncertain.

Lowveld & Escarpment Fire - Claim for potential amount of R112,140.49 relating to unpaid invoices for fire protection. The matter has been referred to the municipality's legal representative and the timing of when the matter will be concluded is uncertain.

G Seal Trading (Pty) Ltd - Claim for goods that were delivered to the municipality for an amount of R628,160.29. The matter has been referred to the municipality's legal representative and the timing of when the matter will be concluded is uncertain.

Leopard creek share block Ltd - The case relates to a dispute of the value of the property in the municipal valuation roll. The potential financial loss by the municipality can only be determined upon the ruling by the court, since it is impractical to determine a reliable estimate based on the demands of the plaintiff.

Ms. Sibongile Mabuza - The municipality was sued for R16,200,000 by Ms S Mabuza, arising from the death of her grandson who sadly passed on after allegedly falling and drowned in a sewerage facility owned by the municipality. It must be noted that the municipality, even though the plaintiff submitted a claim of R16,200,000, we were previously advised to look for similar cases as the one served by the plaintiff for benchmarking the reasonableness of the value of the claim. Management obtained information from legal advisors, including a review of similar historical cases, which indicated that comparable wrongful-death matters had been settled for approximately R2,000,000. However, in terms of **GRAP 19: Provisions, Contingent Liabilities and Contingent Assets**, a provision may only be recognised when a best estimate of the obligation can be determined using reliable and supportable evidence. Therefore, the full claim amount of R16,200,000 is disclosed as a contingent liability, as the existence and extent of the Municipality's obligation will only be confirmed by the court's decision or further legal proceedings.

Amos Dalton Mafuyeka - had obtained default judgment of R83,995.27 against the municipality for a claim of damages resulting from a motor vehicle collision. The potential amount claimed by the applicant is uncertain. The municipality was successfully assisted to obtain a rescission of this judgment. The timing of when the matter will be concluded is uncertain.

Richard Mathebula - Sued the municipality R62,447.40 for allegedly erecting speed humps next to the plaintiff house. The plaintiff complains that the water coming from the tar road which the speed hump is erected has damaged his house. The matter has been referred to the municipality's legal representative and the timing of when the matter will be concluded is uncertain.

Petrus Zeelie issued an application for a declaratory order and an interdict against the municipality for ownership rights of certain immovable property to prevent the municipality from developing or allowing development of a township. The estimated financial loss is R400 000 and the timing of when the matter will be concluded is uncertain.

2024

Valor IT - Claim of R5,034,960 for breach of contract. The matter has been referred to the municipality's legal representative and the timing of when the matter will be concluded is uncertain.

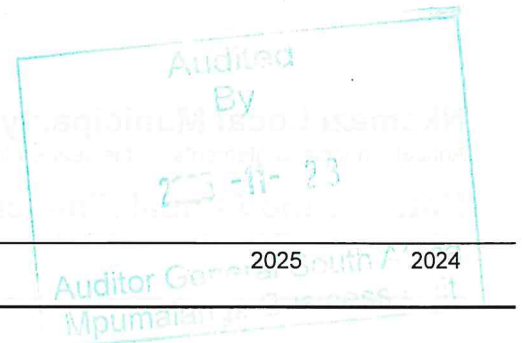
Lowveld & Escarpment Fire - Claim for potential amount of R112,140.49 relating to unpaid invoices for fire protection. The matter has been referred to the municipality's legal representative and the timing of when the matter will be concluded is uncertain.

G Seal Trading (Pty) Ltd - Claim for goods that were delivered to the municipality for an amount of R628,160.29. The matter has been referred to the municipality's legal representative and the timing of when the matter will be concluded is uncertain.

Nkomazi Local Municipality

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Notes to the Annual Financial Statements



47. Change in estimate (continued)

Leopard creek share block Ltd - The case relates to a dispute of the value of the property in the municipal valuation roll. The potential financial loss by the municipality can only be determined upon the ruling by the court, since it is impractical to determine a reliable estimate based on the demands of the plaintiff.

Leopard creek share block Ltd - has issued an application against the municipality wherein it challenges the zoning category under which the municipality is zoning the entity, hence it wants an order directing the municipality to zone the entity under a special category that should be specifically created for the it. The potential financial exposure is uncertain as it was not determined when the claim was instituted.

Ms. Sibongile Mabuza - sued the Municipality R2,000,000 after her grandson passed away by drowning in a sewage facility which is under the care of Nkomazi local Municipality. The matter has been referred to the municipality's legal representative and the timing of when the matter will be concluded is uncertain.

Amos Dalton Mafuyeka - Had obtained default judgment of R83,995.27 against the municipality for a claim of damages resulting from a motor vehicle collision. The potential amount claimed by the applicant is uncertain. The municipality was successfully assisted to obtain a rescission of this judgment. The timing of when the matter will be concluded is uncertain.

Richard Mathebula - Sued the Municipality R62,447.40 for allegedly erecting speed humps next to the plaintiff house. The plaintiff complains that the water coming from the tar road which the speed hump is erected has damaged his house. The matter has been referred to the municipality's legal representative and the timing of when the matter will be concluded is uncertain.

Contingent assets

Cases

2025

Valor IT - Claim for recovery of amount paid to Valor IT to the value of R6,300,000 for breach of contract. The matter has been referred to the municipality's legal representative and the timing of when the matter will be concluded is uncertain.

Nkosi Attorneys - The municipality has instituted legal action against Nkosi attorneys who received money on behalf of the municipality but the money was never transferred to the municipality's account. The total claim lodged amounts to R5,264,933 of which R2,749,659 represents the current outstanding balance due. The matter is currently under litigation and timing of when the matter will be concluded is uncertain.

Bheki Sibiya: The Municipality terminated a contract of occupation with Mr. Bheki Sibiya (Caravan Park) after failing to pay all rentals and services (water and electricity) which was due to the municipality. Total amount recoverable is estimated to be R450,000, however the timing of when the matter will be concluded is uncertain.

2024

Valor IT - Claim for recovery of amount paid to Valor IT to the value of R6,300,000 for breach of contract. The matter has been referred to the municipality's legal representative and the timing of when the matter will be concluded is uncertain.

Nkosi Attorneys - Sued for R5,264,932.91 attachment refund which was received by Nkosi attorneys on behalf of Nkomazi local municipality but was never transferred to the municipality's account. The timing of when the matter will be concluded is uncertain.

Marlon Stuart - The claim is to recover R1,350,000 that was paid by the municipality as security in terms of a court order which the order has since been lifted. The timing of when the matter will be concluded is uncertain.

Bheki Sibiya: The Municipality terminated a contract of occupation with Mr. Bheki Sibiya (Caravan Park) after failing to pay all rentals and services (water and electricity) which was due to the municipality. Total amount recoverable is estimated to be R450,000, however the timing of when the matter will be concluded is uncertain.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

2025

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48. Related parties

Relationships

Significant influence

Members of key management

Nkomazi Special Economic Zone

Refer to the tables below

Related party transactions

The municipality, the lessor entered into a lease agreement with Mpumalanga Economic Growth Agency (MEGA) where the municipality leased out land located at Portion 58, Farm 182 JU in Komatipoort townlands to Nkomazi Special Economic Zone SOC LTD (Nkomazi SEZ), the lessee. The size of the land is 300 hectares with the option to extend to 672,9 hectares within five (5) years as necessitated by the investors of Nkomazi SEZ. The period of the lease is fifty (50) years with the annual payment of R1 per annum.

Remuneration of key management

Management class: Councillors

2025

	Basic salary	Travel and other allowances	Contributions to medical aid and pension fund	Total
Name				
Executive Mayor	645 604	296 112	138 243	1 079 959
Speaker	504 373	252 358	117 058	873 789
Chief Whip	452 725	239 614	127 992	820 331
Members of Mayoral Committee	3 526 268	1 593 642	570 343	5 690 253
Other Councillors	11 207 779	7 629 601	2 138 721	20 976 101
	16 336 749	10 011 327	3 092 357	29 440 433

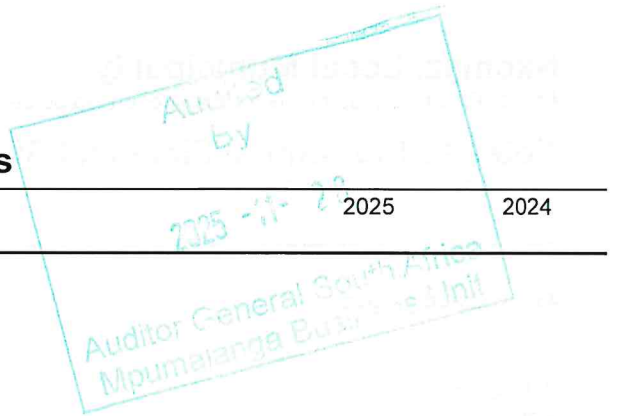
2024

	Basic salary	Travel and other allowances	Contributions to medical aid and pension fund	Total
Name				
Executive Mayor	618 628	294 626	130 794	1 044 048
Speaker	485 110	246 192	110 766	842 068
Chief Whip	439 751	234 476	126 047	800 274
Members of Mayoral committee	3 386 208	1 639 138	545 931	5 571 277
Other Councillors	12 047 989	8 457 648	2 356 163	22 861 800
	16 977 686	10 872 080	3 269 701	31 119 467

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements



48. Related parties (continued)

Management class: Executive management

2025

	Basic salary	Travel and other allowances	Contributions to UIF, medical aid and pension fund	Total
Name				
Municipal Manager	915 241	273 595	58 698	1 247 534
Chief Financial Officer	851 660	218 966	2 267	1 072 893
Director Infrastructure Development	815 279	218 400	39 566	1 073 245
Director Planning and Development	824 987	218 966	28 806	1 072 759
Director Community Services	756 214	120 000	200 987	1 077 201
Director Corporate Services	787 863	144 000	169 701	1 101 564
Director Economic Development and Tourism	765 439	144 000	170 030	1 079 469
	5 716 683	1 337 927	670 055	7 724 665

2024

	Basic salary	Bonuses	Travel and other allowances	Acting allowance	Contributions to UIF, medical aid and pension fund	Total
Name						
Municipal Manager	1 101 003	-	265 740	-	153 008	1 519 751
Chief Financial Officer	952 211	-	258 966	-	81 179	1 292 356
Director Infrastructure Development	725 378	-	163 800	-	34 682	923 860
Director Planning and Development	803 822	-	258 966	-	89 912	1 152 700
Director Community Services	865 468	-	179 884	-	139 360	1 184 712
Director Corporate Services	275 285	-	53 784	-	46 091	375 160
Director Economic Development and Tourism	781 043	-	169 600	-	100 787	1 051 430
Acting Directors Corporate Services	736 318	79 316	223 371	95 353	186 796	1 321 154
	6 240 528	79 316	1 574 111	95 353	831 815	8 821 123

Significant influence

The municipality is a related party to Nkomazi Special Economic Zone Entity through significant influence to participate in the financial and operating policy decisions of the entity by representation of the appointed non-executive board of director Mr. Jerry Khoza who is in the employment of the municipality as Director Economic Development and Tourism.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

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49. Change in estimate

Property, plant and equipment

The estimated useful life of assets for Property, Plant and Equipment, Investment property and Intangible assets were assessed during the current financial year. In the current financial year management have extended their estimated useful lives due to that their useful lives were coming to an end and there is still expectation to use the assets in future. The effect of this revision has decreased the depreciation charges for the current by R1,876,007 (2024: R1,342,313) The net effect of the change in estimate will increase the Net surplus and Statement of changes in net assets. It is impracticable to estimate the effect of these changes on future periods as the municipality have to first assess the condition of these assets in future.

The impact on Property, Plant and Equipment due to the extension of their useful lives is R1,821,678 (2024: R1,280,605)

The impact on Investment Property due to the extension of their useful lives is R27,868 (2024: R18,221)

The impact on Intangible assets due to the extension of their useful lives is R26,461 (2024: R43,486)

Statement of Financial Position

Decrease in accumulated depreciation	1 876 007	1 342 313
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Statement of Financial Performance

Decrease in depreciation	1 876 007	1 342 313
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50. Prior period errors

Correction of prepayment of pre-paid electricity that was not excluded from the trade and other payables from exchange transactions which is disclosed as financial instruments. Management also realised that finance lease liability which form part of financial instruments disclosure note was omitted and deposits which also form part of financial instrument note was incorrectly deducted from trade and other payables from exchange transactions due to oversight.

During the current financial year, management has identified a classification error with regard to disclosure of VAT receivable. VAT receivable was incorrectly disclosed as a single net amount, comprising of VAT input accruals, VAT output accruals and the VAT payable / receivable (SARS). Therefore management has corrected the classification in order to comply with requirements of the standards of GRAP.

During the current financial year the municipality realised prior year accruals relating to electricity purchases, hygiene services and capital assets that were not accounted for due to oversight.

Correction of prior year cost and accumulated depreciation of property, plant and equipment assets that were capitalised at incorrect values due to a calculation error.

During the current financial year, we identified during the audit that Trade creditors payments that were made beginning of July 2024 relating to the 2023/24 financial year were incorrectly recorded in the 2024/25 financial year, resulting in misstated comparative figures of the cash book and trade payables. The error arose from processing payments beginning of July 2024 before closing the system for 30 June 2024.

During the review of the 2024/25 cash flow information, management identified errors in the prior year's cash flow presentation relating to the 2023/24 financial year. The errors resulted from incorrect classification (interest trading & property rates and prepayments - prepaid electricity), omission or incorrect treatment of non-cash adjustments (Retentions, Surety & Finance Lease assets) and also incorrect calculation of finance lease repayments.

The correction of the error(s) results in adjustments as follows:

Nkomazi Local Municipality

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50. Prior period errors (continued)

Statement of Financial Position

Accumulated surplus	-	(443 622)
PPE - Infrastructure water	-	1 483 383
PPE - Motor vehicles	-	3 718 526
PPE - Infrastructure roads	-	3 059 941
Statutory receivables - VAT	-	1 171 463
Payables from exchange transactions - Trade payables	-	(8 989 691)
Cash and cash equivalents	-	128 359 395
Payables from exchange transactions - Trade payables	-	(128 359 395)
Receivables from exchange transaction - Input VAT Accrual	-	87 185 354
Statutory receivables - Input & Output VAT Accrual	-	(63 499 815)
Payables from exchange transactions - Output VAT Accrual	-	(23 685 539)

Statement of Cash Flows

Cash flow from operating activities

Receipts - Property rates & other and Interest income	-	(20 763 828)
Payments - Suppliers	-	132 325 451
	-	111 561 623

Cash flow from investing activities

Purchase of Property Plant and Equipment	-	20 430 456
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Cash flow from financing activities

Finance lease repayments	-	(3 632 682)
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Financial Instruments note

Payables from exchange transactions	-	167 833 472
Finance lease liability	-	2 751 445
Other short term liability	-	(128 359 396)
Receivables from exchange transactions	-	87 185 354
	-	129 410 875

Risk management note

Payables from exchange transactions	-	167 833 472
Finance lease liability	-	2 751 445
Other short term liability	-	(123 357 396)
Receivables from exchange transactions	-	87 185 354
Cash and cash equivalents - Short term deposits	-	5 000 000
	-	139 412 875

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Notes to the Annual Financial Statements

2025

2024

51. Risk management

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.

At 30 June 2025	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	455 824 039	-	-	-
Cash book balance	709 113	-	-	-
Operating lease liability	-	205 851	-	-
Finance lease obligation	2 396 389	-	-	-
At 30 June 2024	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	383 344 147	-	-	-
Cash book balance	14 801 676	-	-	-
Operating lease liability	70 838	-	-	-
Finance lease obligation	1 177 658	1 573 787	-	-

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.

Credit Risk related to consumer debtors is managed in accordance with the Councils credit control and debt collection policy. The Council's credit exposure is spread over a large number and wide variety of consumers, and is not concentrated in any particular sector or geographical area. Adequate provision has been made for anticipated impairment of consumer debtors.

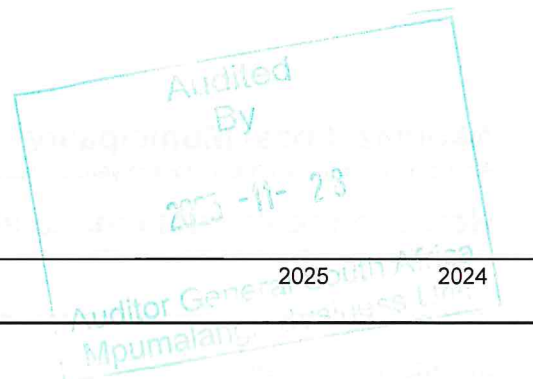
Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2025	2024
Cash and cash equivalents - short term deposits	5 001 000	5 000 000
Receivables from exchange transactions	126 626 906	124 717 865
Consumer debtors - exchange transactions	24 346 222	26 974 178
Operating lease asset	70 100	-

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements



52. Going concern

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

Financial Sustainability and Liquidity Management

The municipality has been unable to meet most of its current obligations by paying service providers within 30 days on receipt of invoice or statement in compliance with Section 65 of the Municipal Finance Management Act No 56 of 2003. The persistent cash flow constraints emanate from the accumulation of trade payables from the previous financial year and minimal cash backed reserves which resulted in a net current liability position at year end.

The municipality continues to face financial pressure due to high employee-related costs, which account for a significant portion of the operating budget and limit available funding for service delivery and other operational needs. This has contributed to liquidity constraints, creating a material uncertainty that may cast doubt on the municipality's ability to deliver services effectively.

The municipality has significant levels of debtors impairment, driven by escalating consumer debt and low collection rates of some consumer debtors. Management has implemented measures to improve revenue collection including stricter credit control, enhanced billing accuracy and targeted debtor recovery initiatives. Despite the uncertainty, management expects that these interventions, together with government transfers, will support the municipality's ability to continue to deliver services.

Liquidity management objectives have not been entirely met as the cash coverage ratio was less than a month which is below the norm of one to three months and the current ratio was fragile as the current liabilities exceeded the current assets in the current year and the current ratio is 0.26 (2024: 0.29). The municipality is however in a positive net asset position, as the total assets exceed its liabilities by R3 billion.

The municipality realised a surplus of R74,834,200 in the current year as compared to a loss of R154,674,081 in the previous financial year. The municipality has a positive cashbook bank balance of R4,291,887 in the current year as compared to a negative cashbook bank balance of R9,799,676 in the previous financial year.

The municipality's budget for 2025 and 2 outer years of the Medium-Term and Expenditure Framework (MTREF) was assessed by National Treasury to be unfunded and as part of the responsive measures to the unfunded budget, the municipality developed a budget funding plan which was tabled and approved by Council in a meeting that was held 05 July 2024. The budget funding plan was further revised in May 2025 and approved by Council in a meeting that was held 30 May 2025. This plan seeks to be a remedial action for the municipality to implement and address the current negative cash flow position of the municipality to achieve a funded budget position. The municipality has adjusted down the 2025 budget during adjustment budget to seek to achieve a funded budget plan. Furthermore, the municipality will continuously review and implement the adopted revenue enhancement strategy which outlines the various optimisation measures to enhance the liquidity and financial health position.

The municipality continues to aggressively implement the financial interventions and revenue collection strategies in order to improve financial sustainability and liquidity management objectives. The municipality will continuously review the budget funding plan and implement various strategies to ensure that spending is within the budget limits. In responding to the cash flow constraints faced by the municipality, the municipality put more focus on revenue optimisation, especially revenue from trading services to ensure accurate billing, implementation of cost containment measures and the reduction of expenditure or cost minimisation to achieve value for money.

53. Unauthorised expenditure

Opening balance as previously reported	472 688 494	275 010 752
Add: Unauthorised expenditure - current	236 519 560	472 688 494
Less: Amount authorised - current	(422 268 920)	(275 010 752)
Closing balance	286 939 134	472 688 494

Unauthorised expenditure is as a result of overspending of the budget of the municipality which caused the operational expenditure or capital expenditure incurred during the financial year to exceed the amount appropriated in the budget.

Nkomazi Local Municipality

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53. Unauthorised expenditure (continued)

Investigations are still in process regarding the opening balance amounts that are still not yet authorised by council relating to prior years unauthorised expenditure.

The municipality will submit the unauthorised expenditure incurred in the current year to council for investigation.

The unauthorised expenditure authorised for write-off in the current year relating to prior year identified cases have been disclosed above.

Unauthorised expenditure: Budget overspending – per municipal department:

Executive and Council	1 182 490	191 631
Budget and Treasury Office	6 446 375	169 448 831
Corporate Services	72 446 154	121 948 830
Community and Social services	4 612 808	43 586 797
Infrastructure Development	128 971 035	137 512 405
Environmental services	22 860 698	-
	236 519 560	472 688 494

Recoverability of unauthorised expenditure

There is no unauthorised expenditure recovered or transferred to receivables for recovery.

54. Fruitless and wasteful expenditure

Opening balance as previously reported	4 113 219	1 241 989
Add: Fruitless and wasteful expenditure identified - current	20 820 513	3 131 176
Less: Amount written off - prior period	(1 092 958)	-
Less: Amount written off - current year	(3 131 176)	(230 647)
Less: Amount transferred to receivable	-	(29 299)
Closing balance	20 709 598	4 113 219

Fruitless and wasteful expenditure is as a result of penalties and interest charged by suppliers and SARS due to late payments.

Investigations are still in process regarding to some of the opening balance amounts that are still not yet authorised by council relating to prior years fruitless and wasteful expenditure.

The municipality will submit the fruitless and wasteful expenditure incurred in the current year to council for investigation.

Amount recovered

The amount of fruitless and wasteful expenditure that has been transferred to receivables relating to prior year is being recovered on a monthly basis.

Amount written-off

The fruitless and wasteful expenditure authorised for write-off in the current year relating to prior year identified cases have been disclosed above.

The fruitless and wasteful expenditure authorised for write-off in prior years relating to 2018 and 2019 financial years identified cases have been disclosed above.

Nkomazi Local Municipality

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	2025	2024
55. Irregular expenditure		
Opening balance as previously reported	54 895 252	246 464 483
Add: Irregular expenditure - current	24 022 929	54 895 252
Less: Amount written off - current	(54 895 252)	(246 464 483)
Closing balance	24 022 929	54 895 252

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

Competitive bidding processes not followed and no deviation approved	-	60 000
Tax non-compliance	-	2 619 381
Non-compliance with SCM advertisement	4 838 176	10 955 178
Non-compliance with evaluation functionality for tender while meeting all the requirements	-	556 155
Pre-qualifying criteria not correctly applied	19 184 753	40 704 538
	24 022 929	54 895 252

Cases under investigation

Investigations are still in process regarding the opening balance amounts that are relating to prior years irregular expenditure cases which are related to non-compliance with procurement process requirements

The municipality will submit the irregular expenditure identified in the current year to council for investigation.

Amount recovered

There is no irregular expenditure recovered or transferred to receivables for recovery.

Amount written-off

The irregular expenditure authorised to be written off in the current year relating to prior year identified cases have been disclosed above.

56. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	67 329	31 083
Current year subscription / fee	409 509	395 316
Amount paid - current year	(442 996)	(359 070)
	33 842	67 329

Audit fees

Opening balance	-	4 043
Current year subscription / fee	8 237 489	7 589 434
Amount paid - current year	(5 831 741)	(7 593 477)
	2 405 748	-



Nkomazi Local Municipality

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	2025	2024
56. Additional disclosure in terms of Municipal Finance Management Act (continued)		
PAYE		
Opening balance	19 622 830	8 155 565
Current year subscription / fee	117 391 518	115 974 064
Amount paid - current year	(108 976 237)	(104 506 799)
	28 038 111	19 622 830
UIF		
Opening balance	1 040 413	509 376
Current year subscription / fee	6 154 881	6 214 055
Amount paid - current year	(5 685 366)	(5 683 018)
	1 509 928	1 040 413
SDL		
Opening balance	949 054	418 662
Current year subscription / fee	5 909 069	5 923 866
Amount paid - current year	(5 512 575)	(5 393 474)
	1 345 548	949 054
Pension and Medical Aid Deductions		
Opening balance	23 075 788	12 493 827
Current year subscription / fee	171 113 298	159 685 523
Amount paid - current year	(169 800 449)	(149 103 562)
	24 388 637	23 075 788

VAT

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

Councillors' arrear consumer accounts

There are no councillors that had arrear accounts outstanding for more than 90 days at 30 June 2025.

Nkomazi Local Municipality

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Notes to the Annual Financial Statements

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

Awards to close family members of persons in the service of the state

Amount paid - current year

33 167 980

45 325 946

2025

Procurement services were made to Phumis Travelling and Tourism for training services to the value of R240 000.

Procurement services were made to Exodus Travel for catering and travel agency services to the value of R1 359 363

Procurement services were made to Abaphumeleli Trading 296 CC for security services to the value of R24 434 441

Procurement services were made to Vuna Lokutjalile Fertilizers for catering services to the value of R452 883

Procurement services were made to Kwinika Holding (Pty) Ltd for Supply of equipment, delivery and balancing of tyres to the value of R1 300 029

Procurement services were made to Nkiyasane Trading (Pty) Ltd for resurfacing of roads to the value of R2 069 193

Procurement services were made to Gwezele General Trading (Pty) Ltd for construction of 275 VIP toilets in nkomazi new villages to the value of R3 312 072

2024

Procurement services were made to Phumis Travelling and Tourism for training services to the value of R877 500.

Procurement services were made to Exodus Travel for catering and travel agency services to the value of R2 287 168

Procurement services were made to Abaphumeleli Trading 296 CC for catering and security services to the value of R31 180 654

Procurement services were made to Vuna Lokutjalile Fertilizers for catering services to the value of R1 442 738

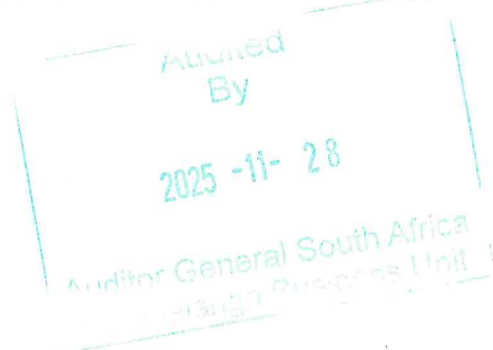
Procurement services were made to Agreeneth Business Enterprise for hiring of tent, chairs and decoration services to the value of R60 000

Procurement services were made to Kwinika Holding (Pty) Ltd for Supply, delivery and balancing of tyres to the value of R1 376 836

Procurement services were made to Nkiyasane Trading (Pty) Ltd for resurfacing of roads to the value of R8 101 050

Non-compliance with the Municipal Finance Management Act

The municipality did not comply with Section 65(e) and Section 99(2)(b) of the MFMA.



Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

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57. Deviation from supply chain management regulations

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

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

Deviations - current year	4 676 819	3 933 798
Deviations - noted by council	(4 676 819)	(3 933 798)
	-	-

A deviation register containing the all incidences is available and all deviations considered by the Accounting Officer are processed in terms of the SCM regulations and the municipality's SCM policy.

58. Segment information

General information

Identification of segments

For management purposes, the municipality is organised and operates in four key functional segments (or business units). To this end, management monitors the operating results of these business units for the purpose of making decisions about resource allocations and assessment of performance. Revenues and Expenditures relating to these business units are allocated at a transactional level. Costs relating to the governance and administration (Vote: Executive & Council, Budget & Treasury Office and Corporate Services) of the municipality are not allocated to these business units.

The four key business units comprise of:

1. Community and Public Safety which includes the following votes that allocate costs to the segment
 - Planning and development
 - Community services
 - Environmental service
2. Economic and Environmental Services which includes the following votes that allocate costs to the segment
 - Planning and Development
 - Infrastructure Development
 - Environmental Services
 - Local Economic Development and Tourism
3. Trading Services which includes the following votes that allocate costs to the segment
 - Infrastructure Development
 - Environmental Services
4. Other Services which includes the following votes that allocate costs to the segment
 - Local Economic Development and Tourism)

Nkomazi Local Municipality

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Figures in Rand

58. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2025

	Community and Public Safety	Economic and Environmental Services	Trading Services	Other	Unallocated	Total
Revenue						
Revenue from non-exchange transactions	2 855 300	66 105 321	865 241 411	-	373 586 131	1 307 788 163
Revenue from exchange transactions	309 533	5 157 006	241 011 364	-	26 701 555	273 179 458
Interest revenue	-	-	3 522 733	-	15 314 342	18 837 075
Gains	-	(400 000)	-	-	4 096 075	3 696 075
Total segment revenue	3 164 833	70 862 327	1 109 775 508	-	419 698 103	1 603 500 771
Entity's revenue						1 603 500 771
Expenditure						
Total segment expenses	120 234 267	123 472 894	685 575 835	12 631 739	476 045 934	1 417 960 669
Depreciation and amortization	11 287 628	26 438 482	59 400 256	5 000	12 663 887	109 795 253
Interest expense	-	-	-	-	17 236 224	17 236 224
Losses / (Impairment reversal)	2 063 161	-	-	-	(18 388 730)	(16 325 569)
Total segment expenditure	133 585 056	149 911 376	744 976 091	12 636 739	487 557 315	1 528 666 577
Total segmental surplus/(deficit)	(130 420 223)	(79 049 049)	364 799 417	(12 636 739)	(67 859 212)	74 834 194
Assets						
Segment assets	254 832 764	985 733 947	2 109 332 188	1 690 903	191 093 914	3 542 683 716
Additions to non-current assets	11 589 775	103 295 361	181 377 978	63 205	3 599 895	299 926 214
Total segment assets	266 422 539	1 089 029 308	2 290 710 166	1 754 108	194 693 809	3 842 609 930
Total assets as per Statement of financial Position						3 842 609 930
Liabilities						
Segment liabilities	-	(563 299)	(26 900 930)	-	(739 829 992)	(767 294 221)

Nkomazi Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand

58. Segment information (continued)
Total liabilities as per Statement of financial Position (767 294 221)

2024

	Community and Public Safety	Economic and Environmental Services	Trading Services	Other	Unallocated	Total
Revenue						
Revenue from non-exchange transactions	247 683	5 551 420	234 678 820	-	11 506 915	251 984 838
Revenue from exchange transactions	2 182 019	74 669 538	865 711 728	-	378 819 008	1 321 382 293
Interest revenue	-	-	3 507 072	-	28 204 170	31 711 242
Total segment revenue	2 429 702	80 220 958	1 103 897 620	-	418 530 093	1 605 078 373
Entity's revenue						1 605 078 373
Expenditure						
Total segment expenses	120 520 548	171 583 739	672 203 177	8 333 015	532 797 923	1 505 438 402
Depreciation and amortization	10 123 270	24 539 636	52 773 290	-	13 993 052	101 429 248
Interest expense	-	-	-	-	2 848 240	2 848 240
Losses	2 501 996	2 070 870	1 220 891	-	144 242 796	150 036 553
Total segment expenditure	133 145 814	198 194 245	726 197 358	8 333 015	693 882 011	1 759 752 443
Total segmental surplus/(deficit)	(130 716 112)	(117 973 287)	377 700 262	(8 333 015)	(275 351 918)	(154 674 070)
Assets						
Segment assets	253 836 561	909 614 798	1 912 342 930	1 695 904	193 175 186	3 270 665 379
Additions to non-current assets	12 502 790	106 479 640	251 798 229	-	13 171 947	383 952 606
Total segment assets	266 339 351	1 016 094 438	2 164 141 159	1 695 904	206 347 133	3 654 617 985
Total assets as per Statement of financial Position						3 654 617 985

Nkomazi Local Municipality

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58. Segment information (continued)

Liabilities

Segment liabilities

Total liabilities as per Statement of financial Position

-	(513 353)	(8 362 122)	-	(645 260 995)	(654 136 470)
					(654 136 470)



Nkomazi Local Municipality

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Notes to the Annual Financial Statements

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59. Budget differences

Material differences between budget and actual amounts

Management have decided to provide reasons for the variances that are more than 10%, however there some exceptional cases where management has decided to provide reasons for the variances that are less than 10%.

Statement of Financial Performance Variances

Rental of facilities and equipment: The variance is due to less rental income generated from RCL foods for renting a municipal farm JU 182 /R. The rental amount is based on profits realized by RCL foods which was lower that the anticipated amount.

Licenses and permits: The variance is due to that some of the shop owners could not meet the requirement and conditions as was proclaimed in the regulations, therefore actual collection was affected.

Recoveries: these recoveries related to legal fees recovered which are contingent in nature, the significant variance is due to the fact that there were no reasonable estimates and clear assumptions, considering the contingent nature of such recoveries during the budget preparation stage, hence they were not budgeted for.

Other income: The variance is due an amount of unallocated deposits recognised as other income, also more income generated from the sale of tender documents, proof of residence, town planning fees such as building plans, Publication print and other sundry revenue items are demand-based items.

Interest received - external: The variance is due that not enough reserves were available for investment purposes.

Property rates: The variance is due to the removal of farms properties from the municipality's jurisdiction, as these properties are no longer part of the municipal area. As a result, the assessed property base has been reduced, leading to lower actual revenue.

Interest property rates: The variance is due to interest billed on the removed farms properties from the municipality's jurisdiction, as these properties are no longer part of the municipal area. As a result, the assessed interest base has been reduced, leading to lower actual revenue.

Government grants & subsidies: The insignificant variance of is due to unspent grant and the rollovers been applied for the grant relating to current financial year.

Public contributions and donations: Donations received during the current financial year which were not budgeted for.

Fines, Penalties and Forfeits: Fewer traffic violations recorded due to increased public adherence to traffic rules or effective enforcement, leading to fewer fines issued.

Employee related costs: The variance is due to spending more than budgeted on overtime, standby allowance which forms an integral part of the high personnel costs that is currently above the required normal ratio. Service delivery departments (Infrastructure department and Community service department) remain the significant contributors of the overspending due to ageing infrastructure and the increased need to attend emergencies

Depreciation and amortisation: The variance is attributable to increase in fixed assets additions to acquire more assets and completion of projects in order to accelerate service delivery to communities.

Finance costs: The variance is due to interest charged assumptions for late payment of invoices which are not adequately factored into the budget amounts

Debt Impairment: The variance is due to write-off of accounts that were impractical to collect.

Bulk purchases: The variance is due to increase in NERSA tariffs and also the increase in electricity demand due to emerging households

Contracted Services: The significant part of the variance is due to spending more than budgeted on security services, fuel & fleet maintenance costs and Legal cost.

Nkomazi Local Municipality

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59. Budget differences (continued)

Transfers and Subsidies: The variance is due to uncompleted projects classified to this category of expenditure which related to MIG, the rollovers been applied for the grant relating to current financial year.

Operational expenditure: The variance is mainly due to an increase in municipal own consumption of electricity since the tariffs have increased and there were newly constructed municipal assets which required additional electricity. Travel claims by municipal officials also contributes to the variance.

Impairment loss, Inventory losses / write-downs: The variance is due to assets with indications of impairment at year end and that these items were not budgeted for.

Gains on disposal of assets and Actuarial gains: The variance is due proceeds from sale of land to SANRAL, ERF 950 Komatipoort Ext, changes in the key assumptions used by an expert in determining the value for benefit obligation and due to that these items were not budgeted for.

Statement of Financial Position Variances

Operating lease asset: The variance is due to that these items were not budgeted for.

Receivable from exchange transactions: Current: The variance is due to less amount of pre-paid electricity amount receivable at year end than was anticipated in the budget.

Statutory receivables: The significant variance is associated with over budgeting on VAT and majority of the VAT refunds were received at year end

Receivables from non-exchange: The variance is associated with adjustment of the item to nil from the original budget amount

Cash and cash equivalent: The closing bank balance lower than what was anticipated in the budget for the year, this is mostly due to cash flow management and cost curtailment measured implemented.

Intangible assets: The variance is due to less acquisitions during the year than was budgeted for and the variance also results from the different VAT treatments when budgeting and on actual spending.

Investment property: The variance is due to disposal of investment property which there were no indication that these properties will be disposed during the budget preparation stage, hence they were not budgeted for.

Finance lease obligation: The variance is due to new of finance lease agreements entered into during the year.

Operating lease liabilities: The variance is due under budgeting operating lease. Some of the operating lease agreements are reaching their expiry date.

Payables from exchange transactions: The variance is due to significant increase attributable to trade payables outstanding at year end and salary suspense account as the third-party payments were made after year end.

Employee benefit obligation: The variance is due to changes in the key assumptions used by an expert in determining the value for benefit obligation.

Unspent conditional grants and receipts: The variance is due to that the budgeted amount is based on the previous year unspent amount and MIG conditional grant has an unspent in the current year.

Provisions: The variance is associated with increase in provision for landfill sites as a result of changes in the Consumer Price Index and passage of time interest.

Statement of Cash Flow Variances

Interest income: The variance is due that not enough reserves were available for investment purposes.

Suppliers and employees: the variance is due to overspending on employee related costs, security Services, fuel and fleet maintenance and legal costs.

Nkomazi Local Municipality

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59. Budget differences (continued)

Finance costs: the variance is mostly associated with overspending as a result of interest paid to Eskom and SARS than anticipated.

Purchase of capital assets: The variance is due to less acquisitions during the year than was budgeted for.

Proceeds from sale of property, plant and equipment: The variance is due sale of land to SANRAL, ERF 950 Komatipoort Ext 7.

Finance lease repayments: The variance is due to less receipts realised during the year than was budgeted for.

Increase / (decrease) in consumer deposits: The variance is due to no movement realised during the year than was budgeted for.

Cash and cash equivalents at the beginning of the year: opening bank balance is lower than what was anticipated in the budget for the year.

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60. Accounting by principals and agents

The municipality is a party to a principal-agent arrangement(s).

Details of the arrangement(s) is/are as follows:

The agreement requires Utilities World as the service provider to provide prepaid electricity vending services.

The municipality is the principal to the agreement where the service provider will collect all monies on behalf of the entity. The service provider will therefore pay the municipality all monies collected less charges and commissions.

Entity as principal

Fee paid

Fee paid as compensation to the agent	982 796	2 288 422
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61. Distribution losses

Electricity losses

	Number 2025	Number 2024		
Units purchased	79 924 338	75 179 413	132 587 035	110 008 597
Units sold	(74 193 800)	(70 509 543)	(123 080 606)	(103 175 266)
Total loss	5 730 538	4 669 870	9 506 429	6 833 331
Percentage Loss: Loss			7 %	6 %

Water losses

	Number 2025	Number 2024		
Units purchased	30 067 873	36 497 913	48 135 763	43 578 125
Units sold	(27 378 071)	(35 352 292)	(43 829 649)	(42 210 266)
Total	2 689 802	1 145 621	4 306 114	1 367 859
Percentage Loss: Loss			2 %	3 %