



Mpfana Municipality
(Registration number KZ223)
Annual Financial Statements
for the year ended 30 June 2025

Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2025

General Information

Nature of business and principal activities	Providing Municipal Services
Members of Council	
Mayor	Cllr TM Magubane
Councillors	Speaker - Cllr ZA Dladla Member of EXCO - Cllr Z Mchunu Member of EXCO - Cllr ES Buthelezi Cllr LW Wynne Cllr XB Zikhali Cllr PB Gunundu Cllr SM Mchunu Cllr JJ Dlomo Inkosi Z Mchunu
Grading of local authority	2
Chief Financial Officer (CFO)	Mr KMN Duma
Accounting Officer	Dr EH Dladla
Registered office	10 Claughton Terrace Mooi River 3300
Municipal Contact Details	033 263 1221/7700
Postal Address	P O Box 47 Mooi River 3300
Bankers	First National Bank (FNB)
Auditors	Auditor General South Africa (AGSA)

Mpofana Municipality

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Abbreviations used:

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts
iGRAP	Interpretation of Generally Recognised Accounting Practice
VAT	Value Added Tax
PAYE	Pay As You Earn
SDL	Skills Development Levy
UIF	Unemployment Insurance Fund
LGSETA	Local Government Sector Education and Training Authority
INEP	Integrated National Electrification Programme
Cllr	Councillor
RDP	Reconstruction and Development Programme
MPRA	Municipal Property Rates Act
AARTO	Administrative Adjudication of Road Traffic Offences
SARS	South African Revenue Services
KZN	Kwa-Zulu Natal
N3TC	N3 Toll Concession
SANRAL	South African National Roads Agency
EPWP	Expanded Public Works Programme
CoGTA	Department of Cooperative Governance and Traditional Affairs
EPCs	Energy Performance Certificates
MPAC	Municipal Public Accounts Committee
EXCO	Executive Committee

Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2025

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

In December 2017, the municipality was placed under Administration, in terms of Section 139(1)(b) of the Constitution which requires the Provincial government to assume responsibility because the municipality could not fulfil an obligation.

The following Administrators were appointed:

1. Mr M Sithole was appointed from January 2018 to March 2019;
2. Mr K Perumal was appointed from April 2019 to August 2019;
3. Mr ME Ngonyama was appointed from September 2020 to October 2021;
4. Ms N Khanyile was appointed from November 2021 to August 2024;
5. Dr NJ Sibeko was appointed from October 2025 to November 2025; and
6. Mr RP Mnguni was appointed from January 2025 to 30 June 2025.

On 25 June 2025, the KwaZulu-Natal Provincial Executive Council resolved to terminate the intervention in terms of section 139(1)(b) at Mpofana Local Municipality.

- a) The Municipality has a deficit of R95 024 980 and total liabilities exceed its assets by R390 949 132.
- b) The liquidity ratio of the municipality is below 1 which means that the municipality is not able to pay its creditors as they fall due. The cash coverage ratio is less than 1 month.
- c) The unspent conditional grant funding has for several years not been cash backed.

The above factors imply that the municipality is not in a position to meet its short term obligations if they fall due at a specific point in time.

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

The accounting officer certifies that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officers Bearers Act and the Minister of Provincial and Local Governments's determination in accordance with this Act.

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

Although the Accounting Officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's internal auditors.

Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2025

Accounting Officer's Responsibilities and Approval

The annual financial statements set out on page 7, 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:

Accounting Officer
Dr EH Dladla

Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2025

Audit Committee Report

Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2025

Statement of Financial Position as at 30 June 2025

Figures in Rand	Note(s)	2025	2024 Restated*
Assets			
Current Assets			
Inventories	3	33 733 576	33 434 464
Other financial assets	4	1 782 749	1 680 253
Receivables from non-exchange transactions	5	18 919 493	12 345 018
VAT receivable	6	106 971 268	90 618 964
Receivables from exchange transactions	7	10 210 149	8 617 395
Loan receivables	8	399 638	399 638
Cash and cash equivalents	9	8 435 979	2 304 053
		180 452 852	149 399 785
Non-Current Assets			
Property, plant and equipment	10	213 384 992	217 620 582
Intangible assets	11	70 835	83 450
Heritage assets	12	234 600	204 000
		213 690 427	217 908 032
Total Assets		394 143 279	367 307 817
Liabilities			
Current Liabilities			
Operating lease liability	13	14 541	8 617
Payables from exchange transactions	14	682 580 143	560 865 872
VAT accrual	50	36 570 687	35 539 698
Consumer deposits	15	364 371	368 552
Employee benefit obligation	16	1 482 000	1 140 018
Unspent conditional grants and receipts	17	22 259 634	26 600 510
Provisions	18	1 541 972	820 292
VAT Payable/Receivable - SARS	51	430 616	(95 256)
Other payables from non-exchange transactions	52	2 882 836	2 636 996
		748 126 800	627 885 299
Non-Current Liabilities			
Employee benefit obligation	16	19 634 000	17 686 378
Provisions	18	17 331 611	17 660 292
		36 965 611	35 346 670
Total Liabilities		785 092 411	663 231 969
Net Assets			
Accumulated deficit		(390 949 132)	(295 924 152)
Total Net Assets		(390 949 132)	(295 924 152)

* See Note 57

Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2025

Statement of Financial Performance

Figures in Rand	Note(s)	2025	2024 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	19	59 493 969	47 513 722
Rental of facilities and equipment	20	175 531	249 884
Licences and permits	21	4 854 263	4 965 144
Construction contractor revenue (INEP)	58	797 391	27 196 661
Other income	22	2 192 614	6 521 073
Interest received	23	558 533	572 186
Actuarial gains	16	-	731 910
Total revenue from exchange transactions		68 072 301	87 750 580
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	24	17 172 739	17 242 076
Transfer revenue			
Government grants & subsidies	25	89 515 389	76 803 737
Finance costs reversed	54	-	35 860 029
Fines, Penalties and Forfeits	26	4 469 000	7 191 953
Total revenue from non-exchange transactions		111 157 128	137 097 795
Total revenue		179 229 429	224 848 375
Expenditure			
Employee related costs	27	(68 802 172)	(62 296 963)
Remuneration of councillors	28	(3 601 604)	(3 094 715)
Construction contract expenditure (INEP)	59	(797 391)	(27 196 661)
Depreciation and amortisation	29	(15 479 431)	(14 814 212)
Impairments loss	30	(7 152 737)	-
Finance costs	31	(28 155 196)	(33 548 952)
Debt Impairment	32	396 378	(14 558 711)
Bulk purchases	33	(81 004 140)	(72 721 413)
Contracted Services	34	(7 623 725)	(5 799 456)
Transfers and Subsidies	53	(64 200)	-
Gain or loss on disposal of assets and liabilities		(600)	-
Actuarial losses	16	(47 564)	-
Inventories losses/write-downs	3	(116 075)	-
Operational costs	35	(63 650 135)	(68 338 977)
Total expenditure		(276 098 592)	(302 370 060)
Deficit for the year from continuing operations		(96 869 163)	(77 521 685)
Fair value adjustment and Gain on landfill site provision	12&18	1 844 183	12 000
Deficit for the year		(95 024 980)	(77 509 685)

* See Note 57

Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2025

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus / deficit	Total net assets
Balance at 01 July 2023	(218 414 467)	(218 414 467)
Changes in net assets		
Deficit for the year	(77 509 685)	(77 509 685)
Total changes	(77 509 685)	(77 509 685)
Restated* Balance at 01 July 2024	(295 924 152)	(295 924 152)
Changes in net assets		
Deficit for the year	(95 024 980)	(95 024 980)
Total changes	(95 024 980)	(95 024 980)
Balance at 30 June 2025	(390 949 132)	(390 949 132)

* See Note 57

Cash Flow Statement

Figures in Rand

Note(s)

2025

2024

Restated*

Cash flows from operating activities

Receipts

Property rates and other receipts from non exchange transactions	19 985 233	25 721 862
Service charges and other receipts from exchange transactions	75 925 569	30 352 899
Transfers and subsidies and Public contributes	90 995 672	85 536 790
Interest income	456 037	572 186
Other receipts	-	28 039 549
	187 362 511	170 223 286

Payments

Employees and Councillors	(72 253 177)	(61 637 839)
Suppliers, Service Providers and Other Suppliers	(96 393 348)	(86 535 458)
Finance charges	-	(4 804 950)
Transfers and Subsidies	(64 200)	-
	(168 710 725)	(152 978 247)

Net cash flows from operating activities

37

18 651 786

17 245 039

Cash flows from investing activities

Purchase of property, plant and equipment	10	(12 650 365)	(18 677 388)
Purchase of other intangible assets	11	-	(14 550)
Movement on financial assets		-	2 343 558

Net cash flows from investing activities

(12 650 365)

(16 348 380)

Net increase/(decrease) in cash and cash equivalents

6 001 421

896 659

Cash and cash equivalents at the beginning of the year

2 304 053

Cash and cash equivalents at the end of the year

9

8 305 474

2 304 053

Mpofana 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
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Sale of goods	1 156 412	(1)	1 156 411	-	(1 156 411)	(a)
Service charges	73 762 267	(3 833 568)	69 928 699	59 493 969	(10 434 730)	(b)
Rental from fixed assets	203 851	20 587	224 438	175 531	(48 907)	(c)
Interest earned from receivables	35 667 129	(35 667 129)	-	-	-	-
Licences and permits	4 469 480	729 432	5 198 912	4 854 263	(344 649)	(d)
Operational revenue	8 465 431	39 999	8 505 430	-	(8 505 430)	(e)
Construction contractor revenue (INEP)	-	-	-	797 391	797 391	(f)
Other income	-	-	-	2 192 614	2 192 614	(g)
Interest earned from current and non-current assets	589 902	-	589 902	558 533	(31 369)	(d)
Total revenue from exchange transactions	124 314 472	(38 710 680)	85 603 792	68 072 301	(17 531 491)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	16 664 408	1 431 846	18 096 254	17 172 739	(923 515)	(h)
Transfer revenue						
Transfers and subsidies	72 687 599	19 547 401	92 235 000	89 515 389	(2 719 611)	(d)
Fines, penalties and forfeits	8 018 478	-	8 018 478	4 469 000	(3 549 478)	(i)
Other gains	-	130 774 155	130 774 155	-	(130 774 155)	u
Total revenue from non-exchange transactions	97 370 485	151 753 402	249 123 887	111 157 128	(137 966 759)	
Total revenue	221 684 957	113 042 722	334 727 679	179 229 429	(155 498 250)	
Expenditure						
Employee related costs	(63 477 988)	-	(63 477 988)	(68 802 172)	(5 324 184)	(d)
Remuneration of councillors	(2 977 823)	(148 895)	(3 126 718)	(3 601 604)	(474 886)	(j)
Construction contractor expenditure (INEP)	-	-	-	(797 391)	(797 391)	(f)
Depreciation and amortisation	(18 991 281)	4 097 678	(14 893 603)	(15 479 431)	(585 828)	(d)
Impairment loss/ Reversal of impairments	-	-	-	(7 152 737)	(7 152 737)	
Interest	-	(19 720 483)	(19 720 483)	(28 155 196)	(8 434 713)	(k)
Debt Impairment	(9 959 667)	-	(9 959 667)	396 378	10 356 045	(l)
Bulk purchases	(66 445 762)	(5 000 000)	(71 445 762)	(81 004 140)	(9 558 378)	(m)
Contracted Services	(10 866 483)	(4 621 049)	(15 487 532)	(7 623 725)	7 863 807	(n)
Transfers and subsidies	-	(4 200)	(4 200)	(64 200)	(60 000)	(o)
Expenses (by function)	-	-	-	1 261 841	1 261 841	
Inventory consumed	(6 784 475)	(10 713 870)	(17 498 345)	-	17 498 345	(p)
Operational cost	(13 416 552)	(7 765 382)	(21 181 934)	(64 911 976)	(43 730 042)	(p)
Total expenditure	(192 920 031)	(43 876 201)	(236 796 232)	(275 934 353)	(39 138 121)	
Operating deficit	28 764 926	69 166 521	97 931 447	(96 704 924)	(194 636 371)	

Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2025

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Loss on disposal of assets and liabilities	-	-	-	(600)	(600)	(q)
Actuarial gains/losses	-	-	-	(47 564)	(47 564)	(r)
Inventories losses/write-downs	-	-	-	(116 075)	(116 075)	(s)
	-	-	-	(164 239)	(164 239)	
Deficit	28 764 926	69 166 521	97 931 447	(96 869 163)	(194 800 610)	
Deficit for the year before fair value adjustments	28 764 926	69 166 521	97 931 447	(96 869 163)	(194 800 610)	
Fair value adjustments	-	-	-	1 844 183	1 844 183	(t)
Surplus/(Deficit) for the year	28 764 926	69 166 521	97 931 447	(95 024 980)	(192 956 427)	

The explanations has been provided below for all the variances that are above 10% and/or above R1,2 million.

- a) **Sale of goods** - Relevant items contributing to this variance are mapped to other income.
- b) **Service charges** - The municipality had anticipated to generate more service charges revenue due to a Token identification (TID) rollout however, electricity losses could not be curbed as planned leading to less electricity sales.
- c) **Rental from fixed assets** - The municipal tourism centre building was affected by natural disaster, preventing the use therefore and thus collection of anticipated revenues.
- d) Variance less than 10%.
- e) **Operational revenue** - During the budgeting process, the municipality anticipated that the SANRAL contract would be renewed, however that did not materialize resulting in loss of revenue.
- f) **Construction contract revenue and expenditure** - No budget provision was made both for the revenue and expenditure relating to this grant as there was uncertainty regarding whether the municipality was going to receive it.
- g) **Other income** - Amounts contributing to this variance were budgeted for under sale of goods.
- h) **Property rates** - Property rates were budgeted based on the prior year actual revenue received, however during a billing vs general valuation roll reconciliation cleanup process, adjustments were made to revenue resulting in a variance with budget.
- i) **Fines, penalties and forfeits** - The camera used by the municipality was not working for the major part of the financial year, resulting in the inability to issue tickets and generate revenue.
- j) **Remuneration of councillors** - During the budget preparation of the budget process, the upper limits increase for councillors was not applicable to the municipality due to unfavourable audit outcomes. Once this was applicable, the municipality did not make a budget provision due to limited financial sources and financial constraints.
- k) **Interest** - The municipality did not budget for interest on late payments as it was not anticipated that supplier obligations would not be honoured resulting in interest and penalties.
- l) **Debt impairment** - The municipality introduced a debt incentive whereby customers could benefit by up to 50% when settling their accounts. This resulted in customers settling accounts including those previously impaired, thus causing an adjustment to the provision for impairment .
- m) **Bulk purchases** - During the budget preparation process, it was anticipated that electricity losses would be significantly reduced. The losses were reduced from 64% to 58%, however this impact did not have a reduction impact to bulk electricity purchases.
- n) **Contracted services** - Less expenditure than budgeted for was spent due to the municipality responding to financial constraints by finding opportunities to cut back on expenditure.

Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2025

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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- o) **Transfers and subsidies** - The municipality paid an amount of R60 000 to the Society for the Prevention of Cruelty to Animals (SPCA) in support of their cause and in line with an agreement signed with them. This amount was not included in the budget.
- p) **Inventory consumed and Operational revenue** - Inventory consumed is part of operational revenue actual figure. Variuances on this item include: Less inventory was consumed due to a decrease in repairs of electricity infrastructure, more legal fees were incurred than anticipated, hire of vehicles was not budgeted for as the municipality anticipated to procure new vehicles which did not materialize, there were high maintenance costs due to the old fleet currently in use and the maintenance of the landfill site was not budgeted for.
- q) **Loss on disposal of assets and liabilities** - No budget provision was made as the loss is as a result of assets written off following an asset verification excercise. .
- r) **Actuarial gains/losses** - Actuarial gains/losses are as a result of an actuarial valuation excercise. There is no budget provision made for these amounts hence the variance.
- s) **Inventory losses** - No budget provision was made as there was no expectation of descrepancies between stock records and inventory count.
- t) **Fair value adjustments** - The mayoral chain was revalued at year end resulting in an upward adjustment to the value. No provision was made for this in the budget.
- u) **Other gains** - This relates to a debt relief benefit from National Treasury approved after budget process but did not materialize.

Mpofana 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
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	33 413 014	(2 213 221)	31 199 793	33 733 576	2 533 783	(a)
Receivables from non-exchange transactions	29 096 971	(16 751 953)	12 345 018	18 919 493	6 574 475	(b)
VAT receivable	58 199 601	22 816 664	81 016 265	68 750 235	(12 266 030)	(c)
Trade and other receivables from exchange transactions	71 460 053	(62 842 659)	8 617 394	10 210 149	1 592 755	(d)
Current portion of non-current receivables (Includes loan receivables and other financial asset)	399 638	1 680 253	2 079 891	2 182 387	102 496	(e)
Cash and cash equivalents	5 328 039	(2 474 435)	2 853 604	8 435 979	5 582 375	(f)
	197 897 316	(59 785 351)	138 111 965	142 231 819	4 119 854	
Non-Current Assets						
Property, plant and equipment	212 519 610	45 406 401	257 926 011	213 384 992	(44 541 019)	(g)
Intangible assets	104 805	(59 200)	45 605	70 835	25 230	(h)
Heritage assets	192 000	12 000	204 000	234 600	30 600	(i)
Other non-current assets	4 023 811	19 527 699	23 551 510	-	(23 551 510)	(j)
	216 840 226	64 886 900	281 727 126	213 690 427	(68 036 699)	
Total Assets	414 737 542	5 101 549	419 839 091	355 922 246	(63 916 845)	
Liabilities						
Current Liabilities						
Financial liabilities	3 422	5 195	8 617	14 541	5 924	(a)
Payables from exchange transactions	494 863 923	5 091 465	499 955 388	682 580 143	182 624 755	(p)
Consumer deposits	369 759	(1 207)	368 552	364 371	(4 181)	(a)
Employee benefit obligation	-	-	-	1 482 000	1 482 000	
Unspent conditional grants and receipts	15 305 505	124 830	15 430 335	22 259 634	6 829 299	(k)
Provisions	294 401	1 665 909	1 960 310	1 541 972	(418 338)	(l)
VAT	12 370 066	(397 817)	11 972 249	-	(11 972 249)	(c)
VAT Payable/Receivable - SARS	-	-	-	430 616	430 616	
Other payables from non-exchange transactions	-	-	-	2 882 836	2 882 836	
	523 207 076	6 488 375	529 695 451	711 556 113	181 860 662	
Non-Current Liabilities						
Provisions	20 897 223	(3 236 931)	17 660 292	17 331 611	(328 681)	(m)
Other non-current liabilities	13 201 890	4 484 488	17 686 378	19 634 000	1 947 622	(a)
	34 099 113	1 247 557	35 346 670	36 965 611	1 618 941	
Total Liabilities	557 306 189	7 735 932	565 042 121	748 521 724	183 479 603	
Net Assets	(142 568 647)	(2 634 383)	(145 203 030)	(392 599 478)	(247 396 448)	

Mpofana 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
Figures in Rand						
Net Assets						
Reserves						
Accumulated deficit	(142 568 648)	(3 511 476)	(146 080 124)	(390 949 132)	(244 869 008)	
	(142 568 648)	(3 511 476)	(146 080 124)	(390 949 132)	(244 869 008)	
Other - Adjustment Budget approved out of balance	1	877 093	877 094	-	(877 094)	(n)
Total Net Assets	(142 568 647)	(2 634 383)	(145 203 030)	(390 949 132)	(245 746 102)	

The explanations has been provided below for all the variances that are above 10% and/or above R1,2 million

a) Variance less than 10%.

b) **Receivables from non-exchange transactions** - The budget baseline was prior year receivables, however some adjustments were made during the financial year. Further, the impairment allowance has significantly decreased and resulting in an increase in net receivables from non-exchange transactions.

c) **VAT receivable** - VAT receivable and payable were budgeted for separately. The net effect is within a tolerable margin.

d) **Receivables from exchange transactions** - The budget baseline was prior year receivables, however some adjustments were made during the financial year. Further, the impairment allowance has significantly decreased and resulting in an increase in net receivables from non-exchange transactions.

e) **Loan receivables** - Variance relates to an interest charge on the outstanding loan from uMsunduzi municipality which was not budgeted for.

f) **Cash and cash equivalents** - It was expected that grant funding will be fully spent at year end, hence cash and cash equivalents were budgeted to be lower.

g) **Property, plant and equipment** - The INEP grant was incorrectly budgeted under capital and was anticipated to be much higher than what was actually received.

h) **Intangible assets** - The budget estimate was incorrect.

i) **Heritage assets** - The heritage asset is valued at year end based on the price on commodity prices. The municipality does not have a reliable estimate during the budget process on how these commodities will perform in a year's time.

i) **Other non-current assets** - During the budget process, management made a separate line item for expenditure against the disaster management grant on the assumption that it will increase the municipality's asset base..

j) **Operating lease liability** - The contract for operating lease of photocopying machines has ended at the time of budgeting. Hence there was no budget for the operating lease accrual.

k) **Financial liabilities** - The amount of payables that was budgeted has not taken into consideration the amount increase in the payables such as retentions and salary suspense accounts at the budget.

l) **Unspent conditional grants and receipts** - The budget for the current portion of employee benefits obligation was not reclassified to current liabilities at budgeting as all the employee benefits obligation were budgeted as non-current.

m) **Unspent conditional grants and receipts** - The budgeted amount was based on the assumption that most grants would be fully spent by year end, however some grants were received late and could not be fully spent at year end.

n) **Provisions** - The basis of the budget was prior valuations by experts. The actual amount is based on a recent valuation which was different to management estimate.

Mpofana 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
Figures in Rand					

o) The adjustment budget was approved with an unbalanced difference. As approved budget figures cannot change, this variance has been disclosed separately.

p) The payable was adjusted downward in anticipation for a debt relief which did not materialize.

Mpofana 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
Figures in Rand						

Cash Flow Statement

Cash flows from operating activities

Receipts

Property rates	16 664 408	1 431 846	18 096 254	25 721 862	7 625 608
Service charges	78 722 960	(2 389 634)	76 333 326	30 352 899	(45 980 427)
Transfers and subsidies	73 604 599	19 547 401	93 152 000	85 536 790	(7 615 210)
Interest	589 902	-	589 902	-	(589 902)
Other Revenue	16 719 097	1 075 528	17 794 625	28 039 549	10 244 924
	186 300 966	19 665 141	205 966 107	169 651 100	(36 315 007)

Payments

Employee Costs	-	-	-	(61 637 839)	(61 637 839)
Suppliers and employees	(163 963 715)	19 978 772	(143 984 943)	(86 535 458)	57 449 485
Finance charges	-	(19 720 483)	(19 720 483)	-	19 720 483
	(163 963 715)	258 289	(163 705 426)	(148 173 297)	15 532 129

Net cash flows from operating activities	22 337 251	19 923 430	42 260 681	21 477 803	(20 782 878)
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Cash flows from investing activities

Capital assets	(20 813 977)	(19 915 877)	(40 729 854)	-	40 729 854
Net increase/(decrease) in cash and cash equivalents	1 523 274	7 553	1 530 827	21 477 803	19 946 976
Cash and cash equivalents at the beginning of the year	4 952 188	(2 648 135)	2 304 053	-	(2 304 053)
Cash and cash equivalents at the end of the year	6 475 462	(2 640 582)	3 834 880	21 477 803	17 642 923

Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2025

Appropriation Statement

Figures in Rand

	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
2025											
Financial Performance											
Property rates	16 664 408	1 431 846	18 096 254	-		18 096 254	17 172 739		(923 515)	95 %	103 %
Service charges	73 762 267	(3 833 568)	69 928 699	-		69 928 699	59 493 969		(10 434 730)	85 %	81 %
Interest earned from current and non-current assets	589 902	-	589 902	-		589 902	558 533		(31 369)	95 %	95 %
Transfers recognised - operational	56 991 249	1 597 401	58 588 650	-		58 588 650	61 366 538		2 777 888	105 %	108 %
Other own revenue	57 980 781	95 897 043	153 877 824	-		153 877 824	14 332 982		(139 544 842)	9 %	25 %
Total revenue (excluding capital transfers and contributions)	205 988 607	95 092 722	301 081 329	-		301 081 329	152 924 761		(148 156 568)	51 %	74 %
Employee costs	(63 477 988)	-	(63 477 988)	-	-	(63 477 988)	(68 802 172)	-	(5 324 184)	108 %	108 %
Remuneration of councillors	(2 977 823)	(148 895)	(3 126 718)	-	-	(3 126 718)	(3 601 604)	-	(474 886)	115 %	121 %
Depreciation and debt impairment	(28 950 948)	4 097 678	(24 853 270)			(24 853 270)	(14 814 212)	-	10 039 058	60 %	51 %
Interest	-	(19 720 483)	(19 720 483)	-	-	(19 720 483)	(28 155 196)	-	(8 434 713)	143 %	DIV/0 %
Inventory consumed and bulk purchases	(73 230 237)	(15 713 870)	(88 944 107)	-	-	(88 944 107)	(81 004 140)	-	7 939 967	91 %	111 %
Transfers and subsidies	-	(4 200)	(4 200)	-	-	(4 200)	(64 200)	-	(60 000)	1 529 %	DIV/0 %
Other expenditure	(24 283 035)	(12 386 431)	(36 669 466)	-	-	(36 669 466)	(113 789 559)	-	(77 120 093)	310 %	469 %
Total expenditure	(192 920 031)	(43 876 201)	(236 796 232)	-	-	(236 796 232)	(310 231 083)	-	(73 434 851)	131 %	161 %
Surplus/(Deficit)	13 068 576	51 216 521	64 285 097	-		64 285 097	(157 306 322)		(221 591 419)	(245)%	(1 204)%

Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2025

Appropriation Statement

Figures in Rand

	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 (monetary allocations) (National / Provincial and District)	15 696 350	17 950 000	33 646 350	-		33 646 350	28 148 851		(5 497 499)	84 %	179 %
Surplus (Deficit) after capital transfers and contributions	28 764 926	69 166 521	97 931 447	-		97 931 447	(129 157 471)		(227 088 918)	(132)%	(449)%
Surplus/(Deficit) for the year	28 764 926	69 166 521	97 931 447	-		97 931 447	(129 157 471)		(227 088 918)	(132)%	(449)%
Capital expenditure and funds sources											
Total capital expenditure	15 696 350	-	15 696 350	-		15 696 350	18 987 110		3 290 760	121 %	121 %
Sources of capital funds											
Transfers recognised - capital	15 696 350	-	15 696 350	-		15 696 350	-		(15 696 350)	- %	- %
Financial position											
Total current assets	197 897 316	(59 785 351)	138 111 965	-		138 111 965	113 955 343		(24 156 622)	83 %	58 %
Total non current assets	216 840 226	64 886 900	281 727 126	-		281 727 126	217 908 032		(63 819 094)	77 %	100 %
Total current liabilities	(523 207 076)	(6 488 375)	(529 695 451)	-		(529 695 451)	(590 336 614)		(60 641 163)	111 %	113 %
Total non current liabilities	(34 099 113)	(1 247 557)	(35 346 670)	-		(35 346 670)	(35 346 670)		-	100 %	104 %
Community wealth/Equity	(142 568 647)	(2 634 383)	(145 203 030)	-		(145 203 030)	(293 819 909)		(148 616 879)	202 %	206 %

Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2025

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments (i.t.o. budget 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
Cash flows											
Net cash from (used) operating	22 337 251	19 923 430	42 260 681	-		42 260 681	18 651 786		(23 608 895)	44 %	84 %
Net cash from (used) investing	(20 813 977)	(19 915 877)	(40 729 854)	-		(40 729 854)	(12 650 365)		28 079 489	31 %	61 %
Net increase/(decrease) in cash and cash equivalents	1 523 274	7 553	1 530 827	-		1 530 827	6 001 421		4 470 594	392 %	394 %
Cash and cash equivalents at the beginning of the year	4 952 188	(2 648 135)	2 304 053	-		2 304 053	2 304 053		-	100 %	47 %
Cash and cash equivalents at year end	6 475 462	(2 640 582)	3 834 880	-		3 834 880	8 305 474		(4 470 594)	217 %	128 %

Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2025

Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be Restated recovered	Balance to be Restated audited outcome
2024				
Financial Performance				
Property rates			17 242 076	
Service charges			47 513 722	
Investment revenue			572 186	
Transfers recognised - operational			56 587 118	
Other own revenue			82 728 654	
Total revenue (excluding capital transfers and contributions)			204 643 756	
Employee costs	3 801 052	-	3 801 052	(62 296 963)
Remuneration of councillors	-	-	-	(3 094 715)
Depreciation and asset impairment	-	-	-	(29 372 923)
Finance charges	4 162 586	-	4 162 586	(33 548 952)
Inventory consumed and bulk purchases	10 590 414	-	10 590 414	(72 721 413)
Construction contracts expense	27 196 661	-	27 196 661	-
Other expenditure	39 974 037	-	39 974 037	(101 335 094)
Total expenditure	85 724 750	-	85 724 750	(302 370 060)
Surplus/(Deficit)				(97 726 304)
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)			20 216 619	
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions) & Transfers and subsidies - capital (in-kind - all)			-	
Surplus (Deficit) after capital transfers and contributions				(77 509 685)
Surplus/(Deficit) for the year				(77 509 685)

Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2025

Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be Restated	
			recovered	audited outcome
Capital expenditure and funds sources				
Total capital expenditure				18 987 110
Sources of capital funds				
Transfers recognised - capital				18 987 110
Financial position				
Total current assets	95 179 211	81 850 766	177 029 977	113 955 343
Total non current assets	221 588 716	31 248 355	252 837 071	217 908 032
Total current liabilities	(398 824 002)	(224 936 147)	(623 760 149)	(592 440 857)
Total non current liabilities	(33 092 342)	(256 725)	(33 349 067)	(35 346 670)
Community wealth/Equity	(115 148 417)	(112 093 751)	(227 242 168)	(295 924 152)
	290 985 320	103 174 507	(187 810 813)	35 % 108 %
	470 745 103	213 708 584	(257 036 519)	45 % 96 %
	(1 216 201 006)	(504 065 993)	712 135 013	41 % 126 %
	(68 695 737)	(31 231 565)	37 464 172	45 % 94 %
	(523 166 320)	(218 414 467)	304 751 853	42 % 190 %
Cash flows				
Net cash from (used) operating				17 245 039
Net cash from (used) investing				(16 348 380)
Net increase/(decrease) in cash and cash equivalents				896 659
Cash and cash equivalents at the beginning of the year				1 407 394
Cash and cash equivalents at year end				2 304 053

The accounting policies on pages 23 to 60 and the notes on pages 61 to 105 form an integral part of the annual financial statements.

Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2025

Significant Accounting Policies

Figures in Rand

Note(s)

2025

2024

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.

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

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

These accounting policies are consistent with the previous period. The municipality changed the cashflow calculation method to enable the user to track the flow of cashflows more transparently. The audited comparative figures have not been restated.

1.2 Presentation currency

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

1.3 Going concern assumption

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

1.4 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:

Trade receivables, loans and receivables

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

Allowance for slow moving, damaged and obsolete stock

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

Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2025

Significant Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

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

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and 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. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including service delivery, together with economic factors such as exchange rates inflation interest.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the electricity networks and road networks. This estimate is based on industry norm. Management will revise the depreciation charge where useful lives are different to 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 16.

Effective interest rate

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

Significant Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Allowance for doubtful debts

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

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.

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

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

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

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

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

Major spare parts and standby equipments which are expected to be used for more than one period are included in property, plant and equipment. In addition spare parts and standby equipments which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

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

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

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

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

Item	Depreciation method	Average useful life
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Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2025

Significant Accounting Policies

1.5 Property, plant and equipment (continued)

Land	Not Applicable	Not Applicable
Buildings	Straight-line	5-25 years
Leased assets	Straight-line	3-5 years
Infrastructure	Straight-line	3-60 years
Other property, plant and equipment	Straight-line	3-10 years

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

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

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

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

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

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

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

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 10).

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

1.6 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2025

Significant Accounting Policies

1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the municipality 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.

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

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

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

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

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

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

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

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

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

When 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.

An Intangible asset is regarded as having an indefinite useful life when based on all relevant factors there is no foreseeable limit to the amortisation method for intangible assets are viewed at each reporting date.

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

Internally generated goodwill is not recognised as an intangible asset.

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

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

Intangible assets are initially recognised at cost and are carried at cost less any accumulated amortisation and any impairments losses. An intangible asset is recognised when it is probable that the expected future economic benefit or service potential that attributable the asset to the municipality and cost can be measured reliable.

Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2025

Significant Accounting Policies

1.7 Intangible assets (continued)

Intangible assets are derecognised:

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

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

1.8 Heritage assets

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

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

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

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

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

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

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.

Heritage assets are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost being the fair value on initial recognition. The cost of an item of heritage assets is the purchase price and other costs attributable to bring the asset to the location and condition for it to be capable of operating in the manner intended by the municipality.

Trade discounts and rebates are deducted in arriving at the cost. The cost also include the necessary cost of dismantling and removing the asset and restoring the site on which it is located.

Where an asset is acquired by the municipality for no or nominal consideration (i.e non exchange transaction) the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of heritage assets acquired in exchange for a non monetary asset or monetary asset or a combination of monetary and non monetary assets, is measured at the fair value of the assets given up, unless the fair value of the asset received is more clearly evident if the required item could not be measured at its fair value its costs is measured at the carrying amount of the asset given up.

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.

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Significant Accounting Policies

1.8 Heritage assets (continued)

Subsequent measurement

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

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

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

Impairment

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

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).

1.9 Financial instruments

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

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

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

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

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

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

Significant Accounting Policies

1.9 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate the municipality 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 municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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

A financial asset is:

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

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

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

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

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

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

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.

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

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

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

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

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Significant Accounting Policies

1.9 Financial instruments (continued)

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

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

Classification

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

Class	Category
Cash and bank	Financial asset measured at fair value
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
VAT receivables	Financial asset measured at amortised cost
Bank investments	Financial asset measured at fair value
Loan receivables	Financial asset measured at amortised cost
Other financial asset	Financial asset measured at amortised cost

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

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Unspent grants and subsidies	Financial liability measured at amortised cost
Provisions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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Significant Accounting Policies

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

- Financial instruments at amortised cost.
- Financial instruments at cost.

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

Impairment and uncollectability of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

Derecognition

Financial assets

The municipality derecognises a financial asset only when:

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

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the municipality 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 municipality obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the municipality 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.

Mpofana Municipality

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Significant Accounting Policies

1.9 Financial instruments (continued)

Financial liabilities

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

Presentation

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

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

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

1.10 Statutory receivables

Identification

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

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

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

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

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

Recognition

The municipality recognises statutory receivables as follows:

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

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Accrued interest

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Significant Accounting Policies

1.10 Statutory receivables (continued)

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

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

Other charges

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

Impairment losses

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

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

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

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

In estimating the future cash flows, 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 entity discounts the estimated future cash flows using a rate that reflects the current risk-free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

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

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

Derecognition

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

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

Significant Accounting Policies

1.10 Statutory receivables (continued)

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.

1.11 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 municipality assesses the classification of each element separately.

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.12 Inventories

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

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

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

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

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

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

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

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

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

Significant Accounting Policies

1.12 Inventories (continued)

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.

When the municipality holds inventories whose future economic benefits or service potential are not directly related to their ability to generate net cash inflows. These types of inventories may arise when a municipality has determined to distribute such inventories through a non-exchange transaction. In these cases, the future economic benefits or service potential of the inventory for financial reporting purposes is reflected by the amount the entity would need to pay to acquire the economic benefits or service potential if this was necessary to achieve the objectives of the municipality. Where the economic benefits or service potential cannot be acquired in the market, an estimate of replacement cost will need to be made.

1.13 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

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

Significant Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Designation

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

The municipality designates an asset or a cash-generating unit as cash-generating when:

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

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

Identification

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

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

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

Value in use

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

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

Basis for estimates of future cash flows

In measuring value in use the municipality:

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

Significant Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

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

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

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Significant Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

Significant Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

Redesignation

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

1.14 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

Significant Accounting Policies

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

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:

The municipality assesses and defines cash-generating assets as all assets held by the municipality with the primary objective to generate a commercial return and defines non-cash generating assets as all assets other than cash-generating assets.

Designation

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

The municipality designates an asset or a cash-generating unit as cash-generating when:

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

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

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

Identification

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

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

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

Significant Accounting Policies

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Restoration cost approach

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

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

Significant Accounting Policies

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

Reversal of an impairment loss

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

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

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

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

Redesignation

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

Significant Accounting Policies

1.15 Employee benefits

Identification

Employee benefits

Employee benefits are all forms of consideration given by the municipality 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.

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either: (a) municipality's decision to terminate an employee's employment before the normal retirement date; or (b) an employee's decision to accept an offer of benefits in exchange for the termination of employment.

Classification of plans

A binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to the arrangement as if it were in the form of a contract. It includes rights from contracts or other legal rights.

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

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

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

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

State plans are plans established by legislation that operate as if they are multiemployer plans for all entities in economic categories laid down in legislation.

Net defined benefit liability (asset)

The net defined benefit liability (asset) is the deficit or surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.

The deficit or surplus is: (a) the present value of the defined benefit obligation; less (b) the fair value of plan assets (if any); plus (c) any liability that may arise as a result of a minimum funding requirement.

The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Plan assets comprise: (a) assets held by a long-term employee benefit fund; and (b) qualifying insurance policies.

Significant Accounting Policies

1.15 Employee benefits (continued)

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

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in GRAP 20) of the reporting entity, if the proceeds of the policy: (a) can be used only to pay or fund employee benefits under a defined benefit plan; and (b) are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either: (i) the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or (ii) the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Defined benefit cost

Service cost comprises: (a) current service cost, which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period; (b) past service cost, which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the municipality in the number of employees covered by a plan); and (c) any gain or loss on settlement.

Net interest on the net defined benefit liability (asset) is the change during the period in the net defined benefit liability (asset) that arises from the passage of time.

Remeasurements of the net defined benefit liability (asset) comprise: (a) actuarial gains and losses; (b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and (c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

Actuarial gains and losses are changes in the present value of the defined benefit obligation resulting from: (a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and (b) the effects of changes in actuarial assumptions.

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

A settlement is a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.

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 municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- (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.

Short-term paid absences

The municipality recognises the expected cost of short-term employee benefits in the form of paid absences as follows:

- (a) in the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences; and
- (b) in the case of non-accumulating paid absences, when the absences occur.

The entity measures the expected cost of accumulating paid absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

Bonus, incentive and performance related payments

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

- (a) the municipality 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 municipality has no realistic alternative but to make the payments.

Post-employment benefits: Distinction between defined contribution plans and defined benefit plans

Post-employment benefits: Defined contribution plans

Recognition and measurement

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

- (a) as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- (b) as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset. When contributions to a defined contribution plan are not expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service, they are be discounted using the discount rate as specified.

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Significant Accounting Policies

1.15 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Recognition and measurement

The municipality 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.

Accounting for the constructive obligation

The municipality accounts not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits.

Statement of financial position

The municipality 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 municipality uses the projected unit credit method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.

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 municipality 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.

Mpofana Municipality

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Significant Accounting Policies

1.15 Employee benefits (continued)

Actuarial assumptions: Salaries, benefits and medical costs

The municipality 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;
- (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.

Past service cost and gains and losses on settlement

When determining past service cost, or a gain or loss on settlement, the municipality remeasures the net defined benefit liability (asset) using the current fair value of plan assets and current actuarial assumptions (including current market interest rates and other current market prices), reflecting:

- (a) the benefits offered under the plan and the plan assets before the plan amendment, curtailment or settlement; and
- (b) the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement.

Past service cost

The municipality recognises past service cost as an expense at the earlier of the following dates:

- (a) when the plan amendment or curtailment occurs; and
- (b) when the municipality recognises related restructuring costs or termination benefits.

Gains and losses on settlement

The municipality recognises a gain or loss on the settlement of a defined benefit plan when the settlement occurs.

Presentation

Current/non-current distinction

The municipality offsets an asset relating to one plan against a liability relating to another plan when, and only when, the municipality:

- (a) has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan; and
- (b) intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Components of defined benefit cost

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Significant Accounting Policies

1.15 Employee benefits (continued)

The municipality recognises service cost, net interest on the net defined benefit liability (asset) and remeasurements in surplus or deficit.

Other long-term employee benefits

Recognition and measurement

For other long-term employee benefits, the entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

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

Termination benefits

Recognition

The municipality recognises a liability and expense for termination benefits at the earlier of the following dates: (a) when the entity can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of GRAP 19 and involves the payment of termination benefits.

Measurement

The municipality measures termination benefits on initial recognition, and measures and recognise subsequent changes, in accordance with the nature of the employee benefit, provided that if the termination benefits are an enhancement to post-employment benefits, the entity applies the requirements for post-employment benefits. Otherwise:

- (a) If the termination benefits are expected to be settled wholly before twelve months after the end of the reporting period in which the termination benefit is recognised, the municipality applies the requirements for short-term employee benefits.
- (b) If the termination benefits are not expected to be settled wholly before twelve months after the end of the reporting period, the municipality applies the requirements for other long-term employee benefits.

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.

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

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

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

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Significant Accounting Policies

1.16 Provisions and contingencies (continued)

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

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

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

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

A constructive obligation to restructure arises only when the municipality:

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

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

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

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

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

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

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

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and

Significant Accounting Policies

1.16 Provisions and contingencies (continued)

- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

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

If the related asset is measured using the revaluation model:

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

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

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

1.17 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement.

A municipality may enter on or before the reporting date for expenditure over subsequent accounting periods e.g a contract for construction of infrastructure assets ,the purchase of major items of plant and equipment or significant consultancy contracts.

In these events , a commitment exists at the reporting date as the municipality has contracted for expenditure but work has not commenced and no payments have been made.

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:

Mpofana Municipality

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Significant Accounting Policies

1.17 Commitments (continued)

- Contracts should be non-cancelable at significant cost (for example, contracts for computers 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 commitment are excluded.

1.18 Long service awards

The municipality has the obligation to provide long service benefit to all its employees according the policy of the long service allowance scheme, which the municipality instituted and operates, an employee (who is in the current conditions of service), is entitled to cash allowance calculated in terms of rules of the scheme after 5 years of continued service and every 5 years subsequently.

The municipality liability is based on the actuarial valuations. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long term incentives are accounted for in surplus or deficit for the year.

1.19 Revenue from exchange transactions

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

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

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

Measurement

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

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

Sale of goods

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

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

Mpofana Municipality

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Significant Accounting Policies

1.19 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

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 received

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

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

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

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Significant Accounting Policies

1.20 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

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

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

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

Recognition

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

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

Measurement

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

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Significant Accounting Policies

1.20 Revenue from non-exchange transactions (continued)

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

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

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

Transfers

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

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

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

Debt forgiveness and assumption of liabilities

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

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

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.

1.21 Investment income

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

1.22 Borrowing costs

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

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

1.23 Accounting by principals and agents

Identification

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

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

Significant Accounting Policies

1.23 Accounting by principals and agents (continued)

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.

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

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

1.24 Comparative figures

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

1.25 Unauthorised expenditure

Unauthorised expenditure means:

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

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

Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2025

Significant Accounting Policies

1.26 Fruitless and/or wasteful expenditure

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

1.27 Irregular expenditure

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

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

1.28 Investments

When the carrying amount of an investment is greater than the estimated recoverable amount it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

1.29 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 a accrual basis and presented by functional classification linked to performance outcome objectives.

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

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

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

Comparative information is not required.

1.30 Related parties

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

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

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

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

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

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

Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2025

Significant Accounting Policies

1.30 Related parties (continued)

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

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

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

1.31 Events after reporting date

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

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

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

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

1.32 Prior period error accounting

Prior period errors are omission from and misstatements in the municipality financial statements for one or more prior periods arising from failure to use or misuse of available reliable information

Unless it is impracticable to determine the effects of the error the municipality corrects material prior period retrospectively by restating the comparative amounts for the prior period.

1.33 Loan receivable

Loan and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loan and receivables are subsequently measured at amortized cost using the effective interest rate.

The effective interest method is a method of calculating the amortised cost of financial asset or 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 and financial liability.

When calculating the effective interest rate the municipality estimates cash flows considering all contractual terms of the financial instrument but does 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, transaction costs and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments) the municipality uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Significant Accounting Policies

1.34 Materiality

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

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

The municipality does not retrospectively adjust the accounting of past items (or group of items) that were previously assessed as immaterial, unless an error occurred.

1.35 Tax

Value added tax

The municipality accounts for value added tax on the payment basis in accordance with Section 15(2) of the value-added tax act (Act No. 89 of 1991).

1.36 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.

Significant Accounting Policies

1.37 Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Cash and cash equivalents comprise bank balances, cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less which are available on demand.

Some equity investments are included in cash equivalents when they are, in substance, cash equivalents.

Bank overdrafts which are repayable on demand forms an integral part of the entity's cash management activities, and as such are included as a component of cash and cash equivalents.

1.38 Segment information

A segment is an activity of the municipality:

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

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

Measurement

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

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

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Notes to the Annual Financial Statements

Figures in Rand

2025 2024

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

Standard / Interpretation:	Effective date: Years beginning on or after	Expected impact:
• iGRAP 22 Foreign Currency Transactions and Advance Consideration	01 April 2025	Unlikely there will be a material impact
• GRAP 104: Financial Instruments	01 April 2025	Unlikely there will be a material impact
• GRAP 105: Transfer of Functions Between Entities Under Common Control	01 April 2025	Unlikely there will be a material impact
• GRAP 106: Transfer of Functions Between Entities Not Under Common Control	01 April 2025	Unlikely there will be a material impact
• GRAP 107: Mergers	01 April 2025	Unlikely there will be a material impact
• GRAP 103 (amended): Heritage Assets	01 April 2025	Not expected to impact results but may result in additional disclosure
• GRAP 1 (amended): Presentation of Financial Statements (Going Concern)	01 April 2025	Not expected to impact results but may result in additional disclosure

2.2 Standards and interpretations issued, but not yet effective

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

Standard / Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 2023 Improvements to the Standards of GRAP 2023	No effective date	Unlikely there will be a material impact
• GRAP 25: Employee Benefits	No effective date	Unlikely there will be a material impact
•		
•		
•		

3. Inventories

Consumable stores	368 576	69 464
RDP properties held for distribution	33 365 000	33 365 000
	33 733 576	33 434 464

During the annual stock count, inventory losses of R116 075 were identified within consumable stores, resulting from discrepancies. These losses have been recognised as an expense in the statement of financial performance.

RDP houses that are in the name of the municipality and were not officially transferred to beneficiaries that were identified during the 2023/24 and 2024/25 financial years respectively. These RDP housing stock are included in inventory as per GRAP 12.

None of the inventory items are pledged as security.

4. Other financial assets

At amortised cost

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Notes to the Annual Financial Statements

Figures in Rand	2025	2024
4. Other financial assets (continued)		
Other financial assets - uMsunduzi Municipality vehicles loan	1 782 749	1 680 253
The Municipality entered into an agreement with uMsunduzi Municipality to loan 13 motor vehicles. The vehicles were to be returned to Mpofana Local Municipality as at the end of March 2023, brand new of the same make and specifications. The amount of vehicles loaned to Msunduzi was determined by using the fair value of the brand new vehicles of the same make and specifications as at 30 June 2023. The future value of the vehicles loaned to Msunduzi was determined to be R 4,023,811 using the Vehicle Pricing Index of 6.1%. The parties had further resolved to settle the arrangement in form of cash settlement. The municipality received a payment of R2 343 557.52 on 16 April 2024 and the balance is still receivable. Given that the initial period of two years has since expired with only a portion of the payment being received, further Interest has been levied on the outstanding balance as at 30 June 2025 based on the implicit effective rate of 6.1%		
Current assets		
At amortised cost	1 782 749	1 680 253
5. Receivables from non-exchange transactions		
Fines	82 555 446	78 366 296
Property rates	99 422 472	102 525 916
Sundry debtors	303 746	303 746
Provision for bad debt - Sundry debtors	(303 746)	(303 746)
Provision for bad debts - Rates	(90 320 191)	(100 002 029)
Provision for bad debts - Fines	(72 738 234)	(68 545 165)
	18 919 493	12 345 018
Statutory receivables included in receivables from non-exchange transactions above are as follows:		
Taxes	9 102 281	2 523 887
Fines	9 817 212	9 821 131
	18 919 493	12 345 018
Total receivables from non-exchange transactions	18 919 493	12 345 018

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Notes to the Annual Financial Statements

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2025 2024

5. Receivables from non-exchange transactions (continued)

Property rates

Current (0 - 30 days)	3 529 547	1 685 274
31 - 60 days	932 513	1 177 853
61 - 90 days	891 260	1 103 294
91 - 120 days	853 212	1 059 568
121 - 150 days	761 615	1 070 466
> 150 days	92 638 170	96 429 461
	99 606 317	102 525 916

Transaction(s) arising from statute

Property rates levied in terms of the Local Government: Municipal Property Rates Act No. 06 of 2004 (MPRA) with effect from 01 July 2007.

Determination of transaction amount

The property rates are determined based on the market value of the property, and the tariff applicable as per category of property. The property market values are determined by independent valuers every five years.

Traffic fines

Fines issued	82 631 657	78 366 296
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Transaction(s) arising from statute

Traffic fines are issued in terms of the Administrative Adjudication of Road Traffic Offences (AARTO Act) by way of notices to offenders which specify the value of the fine that must be paid.

Determination of transaction amount

Schedule 3 of the AARTO Regulations 2008 for charge codes and descriptions, penalties and their discounts, and demerit points.

Summary of debtors by customer classification

Households

Current (0 - 30 days)	374 056	413 598
31 - 60 days	206 276	255 171
61 - 90 days	200 748	244 756
91 - 120 days	193 413	231 460
121 - 150 days	187 958	247 056
> 150 days	46 933 221	47 894 021
	48 095 672	49 286 062
Less: Allowance for impairment	(46 966 064)	(48 348 843)
	1 129 608	937 219

Industrial/commercial

Current (0 - 30 days)	2 978 578	951 348
31 - 60 days	491 787	661 863
61 - 90 days	473 772	617 760
91 - 120 days	438 387	590 083
121 - 150 days	390 595	568 496
> 150 days	23 656 984	26 314 021
	28 430 103	29 703 571
Less: Allowance for impairment	(24 539 346)	(28 743 330)
	3 890 757	960 241

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5. Receivables from non-exchange transactions (continued)

National and provincial government

Current (0 - 30 days)	5 291	13 716
31 - 60 days	2 409	4 972
61 - 90 days	3 469	5 626
91 - 120 days	3 469	4 410
121 - 150 days	4 150	20 869
> 150 days	5 010 875	4 952 326
	5 029 663	5 001 919
Less: Allowance for impairment	(2 408 469)	(4 889 177)
	2 621 194	112 742

Other

Current (0 - 30 days)	171 623	306 613
31 - 60 days	232 042	255 847
61 - 90 days	213 271	235 152
91 - 120 days	217 944	233 615
121 - 150 days	178 913	234 045
> 150 days	17 037 091	17 269 093
	18 050 884	18 534 365
Less: Allowance for impairment	(16 406 313)	(18 020 679)
	1 644 571	513 686

Included in Other is Agriculture, Public Services Purpose, Public Benefit Organisation, Vacant Land, Public Service Infrastructure, Place of Worship, Protected Area and Multiple Use Purpose properties.

Total

Current (0 - 30 days)	3 529 547	1 685 274
31 - 60 days	932 513	1 177 853
61 - 90 days	891 260	1 103 294
91 - 120 days	853 212	1 059 568
121 - 150 days	761 615	1 070 466
> 150 days	92 638 170	96 429 461
	99 606 317	102 525 916
Less: Allowance for impairment	(90 320 191)	(100 002 029)
	9 286 126	2 523 887

Less: Allowance for impairment

Current (0 - 30 days)	(3 218 568)	(1 071 682)
31 - 60 days	(795 663)	(989 309)
61 - 90 days	(790 968)	(973 655)
91 - 120 days	(783 005)	(976 324)
121 - 150 days	(708 342)	(1 006 320)
> 150 days	(84 023 565)	(94 984 739)
	(90 320 111)	(100 002 029)

Basis used to assess and test whether a statutory receivable is impaired

An assessment whether there is objective evidence that the receivable is impaired is performed at an individual account level as well as at the group level.

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5. Receivables from non-exchange transactions (continued)

Assessment at an individual account level

- Any of the following events is considered to provide objective evidence that a receivable account could be impaired at an individual account level:

1. Account balance outstanding for 90+ days
2. Collection rate (collection rate above 95%, no impairment is provided for)

Assessment at a group level (collection assessment)

- Assessment at a group level is determined with reference to the average collection rate.

1. If the average collection rate 95% and above, no impairment is provided for.
2. If the average rate is below 95%, impairment is provided for.

Discount rate applied to the estimated future cash flows

The effective interest rate would not need to be determined where short term receivables with no stated interest rate (which is usually measured at the original invoice amount)

Therefore the discount rate used by the municipality as determined in the government gazette which is 11.25%.

The discount rate is divided by 365 in order to get daily rate.

Statutory receivables past due but not impaired

Statutory receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2025, 8 288 854 (2024: 995 049) were past due but not impaired.

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

1 month past due	8 245 509	995 049
2 months past due	7 138	-
3 months past due	36 207	-

Reconciliation of provision for impairment of property rates

Opening balance	(100 002 029)	(111 620 634)
Provision for impairment	9 681 838	(3 795 750)
Amounts written off as uncollectible	644 690	15 414 355
	(89 675 501)	(100 002 029)

Reconciliation of provision for impairment of fines and sundry debtors

Opening balance	(68 898 006)	(61 403 329)
Provision for impairment	(3 840 228)	(7 494 677)
	(72 738 234)	(68 898 006)

6. VAT receivable

VAT Receivable	106 971 268	90 618 964
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The VAT receivable amount pertains to VAT on receivables outstanding on exchange transactions, raised in the ordinary course of doing business but not yet declared on the SARS VAT return.

VAT declared on the VAT return is disclosed in Note 51 as VAT payable.

VAT is recognised/accounted for on a payment basis. Once payment is received from customers/receivables, VAT is paid over to SARS.

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6. VAT receivable (continued)

These amounts are receivable by the municipality as a result of transaction attracting value added tax (VAT) as legislated under the Value Added Tax 89 of 1991 from the South African Revenue Services. VAT is deemed as Statutory Receivables.

No impairment against the VAT receivable.

7. Receivables from exchange transactions

Gross balances

Electricity	5 830 729	9 672 780
Refuse	72 836 489	69 414 588
Sundry receivables	2 536 694	1 358 647
Housing rental	391 785	222 916
Other	43 535	57 485
	81 639 232	80 726 416

Less: Allowance for impairment

Electricity	(2 242 104)	(4 315 221)
Refuse	(69 040 724)	(67 641 050)
Housing rental	(146 255)	(152 750)
	(71 429 083)	(72 109 021)

Net balance

Electricity	3 588 625	5 357 559
Refuse	3 795 765	1 773 538
Sundry receivables	2 536 694	1 358 647
Housing rental	245 530	70 166
Other	43 535	57 485
	10 210 149	8 617 395

Electricity

Current (0 -30 days)	2 945 251	4 929 044
31 - 60 days	1 202 763	1 349 966
61 - 90 days	191 234	683 382
91 - 120 days	123 219	445 114
121 - 150 days	107 849	290 257
> 150 days	1 227 705	1 975 017
	5 798 021	9 672 780

Refuse

Current (0 -30 days)	852 272	960 520
31 - 60 days	383 333	496 394
61 - 90 days	388 299	472 220
91 - 120 days	382 792	457 626
121 - 150 days	381 054	430 799
> 150 days	70 448 739	66 597 030
	72 836 489	69 414 589

Sundry receivables

Current (0 - 30 days)	2 536 694	1 358 647
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Sundry receivables balance is made up of receivables from other stakeholders. This includes N3TC, SANRAL, Conlog and licenses and permits receivables (Agency fees from KZN Department of Transport).

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7. Receivables from exchange transactions (continued)

Housing rental

Current (0 -30 days)	3 732	78 732
31 - 60 days	3 732	5 047
61 - 90 days	2 047	4 232
91 - 120 days	1 232	4 232
121 - 150 days	3 732	4 232
> 150 days	252 526	126 441
	267 001	222 916

Other

Current (0 -30 days)	-	25 995
31 - 60 days	-	794
61 - 90 days	-	794
91 - 120 days	-	794
121 - 150 days	-	794
> 150 days	-	28 314
	-	57 485

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7. Receivables from exchange transactions (continued)

Summary of debtors by customer classification

Households

Current (0 -30 days)	948 374	1 104 008
31 - 60 days	425 539	510 106
61 - 90 days	364 384	471 072
91 - 120 days	365 873	452 856
121 - 150 days	364 734	414 427
> 150 days	68 039 425	64 262 876
	70 508 329	67 215 345
Less: Allowance for impairment	(69 587 562)	(65 300 289)
	920 767	1 915 056

Industrial / Commercial

Current (0 -30 days)	5 113 071	4 360 578
31 - 60 days	1 013 248	1 125 341
61 - 90 days	177 125	650 362
91 - 120 days	103 445	416 116
121 - 150 days	90 918	272 880
> 150 days	2 257 379	2 835 427
	8 755 186	9 660 704
Less: Allowance for impairment	(2 938 526)	(4 867 207)
	5 816 660	4 793 497

National and Provincial Government

Current (0 -30 days)	276 376	504 383
31 - 60 days	150 914	216 633
61 - 90 days	39 944	39 073
91 - 120 days	37 798	38 673
121 - 150 days	36 856	38 655
> 150 days	1 626 208	1 623 534
	2 168 096	2 460 951
Less: Allowance for impairment	(751 219)	(1 934 087)
	1 416 877	526 864

Other

Current (0 -30 days)	127	25 321
31 - 60 days	127	121
61 - 90 days	127	121
91 - 120 days	127	121
121 - 150 days	127	121
> 150 days	5 958	4 964
	6 593	30 769
Less: Allowance for impairment	(6 314)	(7 439)
	279	23 330

Total

Current (0 -30 days)	6 337 949	5 994 290
31 - 60 days	1 589 829	1 852 201
61 - 90 days	581 580	1 160 628
91 - 120 days	507 243	907 767
121 - 150 days	492 635	726 083

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7. Receivables from exchange transactions (continued)

> 150 days	71 928 970	68 726 800
Less: Allowance for impairment	81 438 206	79 367 769
	(73 283 621)	(72 109 022)
	8 154 585	7 258 747

Less: Allowance for impairment

Current (0 -30 days)	(2 469 607)	(1 526 354)
31 - 60 days	(453 482)	(843 327)
61 - 90 days	(441 804)	(702 356)
91 - 120 days	(446 820)	(856 622)
121 - 150 days	(439 334)	(695 120)
> 150 days	(69 032 573)	(67 485 243)
	(73 283 620)	(72 109 022)

Total debtor past due but not impaired

Current (0 -30 days)	14 277 159	727 885
31 - 60 days	12 360	-
61 - 90 days	12 360	-
91 - 120 days	12 360	-
121 - 365 days	12 360	-
> 365 days	(101 096)	-
	14 225 503	727 885

Reconciliation of allowance for impairment

Balance at beginning of the year	(72 109 022)	(69 958 014)
Contributions to allowance	(1 174 599)	(3 959 743)
Debt impairment written off against allowance	-	1 808 735
	(73 283 621)	(72 109 022)

Statutory receivables general information

Basis used to assess and test whether a statutory receivable is impaired

An assessment whether there is objective evidence that the receivable is impaired is performed at an individual account level as well as at a group level.

Assessment at an individual account level

-Any of the following events is considered to provide objective evidence that a receivable account could be impaired at an individual account level:

1. Account balance outstanding for 90+ days.
2. Collection rate (collection rate above 95%, no impairment is provided for).

Assessment at a group level (collection assessment)

- Assessment at group level is determined with reference to the average collection rate:

1. If the average collection rate is 95% and above, no impairment is provided for.
2. If the average collection rate is below 95%, impairment is provided for.

Discount rate applied to the estimated future cash flows

The effective interest rate would not need to be determined where short term receivables with no stated interest rate (which is usually measured at the original invoice amount)

Therefore the discount rate used by the municipality as determined in the government gazette which is 11.25%. The discount rate is divided by 365 in order to get daily rate.

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8. Loan receivable

uMgungundlovu District Municipality	399 638	399 638
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This loan pertains to uMgungundlovu District Municipality that owes Mpofana Local Municipality for the DBSA Loan. Mpofana Municipality took out a DBSA loan to finance water and sanitation works in prior years. The water function was subsequently transferred to uMgungundlovu District Municipality however Mpofana Municipality continued servicing the debt, thus the Municipality needed to be reimbursed by uMgungundlovu District Municipality with regards to these loan repayments. The loan is interest free and not secured by any liabilities.

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash in transit (Fidelity)	116 578	56 490
Bank balances	8 319 401	2 247 563
	8 435 979	2 304 053

The municipality has contracted Fidelity to collect cash from municipal facilities to be deposited at the bank. The balance of R117 178 was collected before the year-end, and deposits made to the bank subsequently. The bank however rejected R600 as counterfeit cash. An internal investigation was conducted and preventative and detective controls were implemented. The amount has been written off.

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:

Credit rating

BB-	8 319 401	2 247 563
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9. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2025	30 June 2024	30 June 2023	30 June 2025	30 June 2024	30 June 2023
First National Bank - Current Account - 53050399907	277 675	1 404 759	564 496	394 853	1 461 249	564 496
First National Bank - Current Account - 62101108034	52 782	6 093	59 508	52 782	6 093	59 508
First National Bank - Call Account - 62134172890	20 228	7 134	4 859	20 228	7 134	4 859
First National Bank - Call Account - 62172493935	12 126	9 030	3 853	12 126	9 030	3 853
First National Bank - Call Account - 62173946040	45 748	773 387	702 312	45 748	773 387	702 312
First National Bank - Call Account - 62187203957	40 302	12 813	2 223	40 302	12 813	2 223
First National Bank - Call Account - 62237621760	7 835 356	6 542	2 324	7 835 356	6 542	2 324
First National Bank - Call Account - 62854534990	2 422	2 422	8 789	2 422	2 422	8 789
First National Bank - Call Account - 62854535790	8 484	8 109	7 718	8 484	8 109	7 718
First National Bank - Call Account - 628545366607	6 516	154	20 304	6 516	154	20 304
First National Bank - Call Account - 62854537449	3 698	3 698	3 758	3 698	3 698	3 758
First National Bank - Call Account - 62854538786	5 196	4 966	18 732	5 196	4 966	18 732
First National Bank - Call Account - 62920117969	8 869	8 456	8 917	8 869	8 456	8 917
Total	8 319 402	2 247 563	1 407 793	8 436 580	2 304 053	1 407 793

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10. Property, plant and equipment

	2025			2024		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	21 512 716	(110 000)	21 402 716	21 512 716	(110 000)	21 402 716
Buildings	59 269 084	(20 153 310)	39 115 774	59 269 084	(17 708 005)	41 561 079
Infrastructure	267 010 990	(132 628 508)	134 382 482	270 380 513	(145 182 104)	125 198 409
Other property, plant and equipment	17 912 609	(15 720 963)	2 191 646	17 710 513	(14 512 445)	3 198 068
Work in progress	14 831 625	-	14 831 625	23 339 601	-	23 339 601
Leased assets	23 551 510	(22 790 417)	761 093	23 551 510	(22 029 325)	1 522 185
Landfill site	13 594 292	(12 894 636)	699 656	13 594 292	(12 195 768)	1 398 524
Total	417 682 826	(204 297 834)	213 384 992	429 358 229	(211 737 647)	217 620 582

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10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2025

	Opening balance	Additions	Transfers received	Transfers	Depreciation	Impairment loss	Impairment reversal	Total
Land	21 402 716	-	-	-	-	-	-	21 402 716
Buildings	41 561 079	-	-	-	(2 477 857)	-	32 552	39 115 774
Infrastructure	125 198 409	-	26 820 525	-	(10 483 761)	(7 152 691)	-	134 382 482
Other property, plant and equipment	3 198 068	201 919	-	-	(1 175 742)	(32 599)	-	2 191 646
Work in progress	23 339 601	18 312 549	-	(26 820 525)	-	-	-	14 831 625
Leased assets	1 522 185	-	-	-	(761 092)	-	-	761 093
Landfill site	1 398 524	-	-	-	(698 868)	-	-	699 656
	217 620 582	18 514 468	26 820 525	(26 820 525)	(15 597 320)	(7 185 290)	32 552	213 384 992

Reconciliation of property, plant and equipment - 2024

	Opening balance	Additions	Transfers received	Transfers	Depreciation	Total
Land	21 402 716	-	-	-	-	21 402 716
Buildings	44 038 937	-	-	-	(2 477 858)	41 561 079
Infrastructure	130 855 680	-	4 083 694	-	(9 740 965)	125 198 409
Other property, plant and equipment	3 803 602	493 990	-	-	(1 099 524)	3 198 068
Work in Progress	8 696 667	18 726 628	-	(4 083 694)	-	23 339 601
Leased assets	2 283 277	-	-	-	(761 092)	1 522 185
Landfill site	2 330 900	(233 508)	-	-	(698 868)	1 398 524
	213 411 779	18 987 110	4 083 694	(4 083 694)	(14 778 307)	217 620 582

For detailed analysis and segmental analysis of the property, plant and equipment please refer to Appendix B & C.

No property, plant and equipment has been pledged as collateral of liabilities of the municipality.

The useful lives of the assets that were approaching the end of its useful lives were assessed as at 30 June 2025. The impact of reassessment of the useful lives in the current period and subsequently.

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10. Property, plant and equipment (continued)

	Current Year	2-5 Years
Property, plant and equipment carrying amount	-	(3 608 483)
Depreciation	-	3 608 483
	-	-

Assets subject to finance lease (Net carrying amount)

Lease of motor vehicles	761 093	1 522 185
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Reconciliation of Work-in-Progress 2025

	Included within Infrastructure	Included within Community	Total
Opening balance	15 174 844	8 164 757	23 339 601
Additions/capital expenditure	17 112 532	1 200 017	18 312 549
Transferred to completed items	(26 820 526)	-	(26 820 526)
	5 466 850	9 364 774	14 831 624

Reconciliation of Work-in-Progress 2024

	Included within Infrastructure	Included within Community	Total
Opening balance	5 533 431	3 163 236	8 696 667
Additions/capital expenditure	13 725 107	5 001 521	18 726 628
Transferred to completed items	(4 083 694)	-	(4 083 694)
	15 174 844	8 164 757	23 339 601

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

Operational cost	14 372 004	23 123 139
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10. Property, plant and equipment (continued)

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.

11. Intangible assets

	2025			2024		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 286 808	(1 215 973)	70 835	1 286 808	(1 203 358)	83 450

Reconciliation of intangible assets - 2025

	Opening balance	Amortisation	Total
Computer software, other	83 450	(12 615)	70 835

Reconciliation of intangible assets - 2024

	Opening balance	Additions	Amortisation	Total
Computer software	104 805	14 550	(35 905)	83 450

For detailed analysis and segmental analysis of intangible assets please refer to Appendix B & C.

No intangible asset has been pledged as collateral of liabilities of the municipality

The useful lives of the intangible assets that were approaching the end of its useful lives were assessed as at 30 June 2025. The impact of reassessment of the useful lives in the current period and subsequently.

	Current Year	2 - 5 Years
Intangible assets - carrying amount	69 869	(139 739)
Amortisation	(69 869)	139 739
	-	-

12. Heritage assets

	2025			2024		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Mayoral Chain	234 600	-	234 600	204 000	-	204 000

Reconciliation of heritage assets 2025

	Opening balance	Revaluation increase/(decrease)	Total
Mayoral Chain	204 000	30 600	234 600

Reconciliation of heritage assets 2024

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12. Heritage assets (continued)

	Opening balance	Revaluation increase/(decrease)	Total
Mayoral Chain	192 000	12 000	204 000

The Mayoral chain has been revalued as at 30 June 2025 by Afrokwazi. The effective date of the revaluation was 30 June 2025.

The nature of material and the respective weight was utilised to determine the fair value based on the prevailing market prices of silver as at 30 June 2025. The Fair value as at 30 June 2025 was R234 600 (2024: R204 000).

For detailed analysis and segmental analysis of the heritage assets please refer to Appendix B & C.

13. Operating lease liability

Current liabilities	(14 541)	(8 617)
Operating lease accrual		
Opening balance	(8 616)	(3 422)
Operating lease expense recorded	469 851	172 924
Operating lease payments from smoothing	(475 775)	(178 118)
	(14 540)	(8 616)

14. Payables from exchange transactions

Trade payables	664 466 379	541 222 598
Retentions	4 546 285	6 266 479
Accrued leave pay	5 151 137	4 993 308
Debtors received in advance - Exchange	748 515	879 878
Unallocated receipts	425 436	1 324 667
Salary Suspense	5 928 808	4 971 087
13th Cheque accrual	1 313 583	1 207 855
	682 580 143	560 865 872

Eskom debt relief

The municipality applied for ESKOM debt relief on the 31 October 2023 for the principal amount and for the interest charged up to the 31 March 2023. The application was made to National Treasury in accordance with the provisions of Municipal Debt Relief MFMA Circular No. 124.

The debt write-off will be implemented over a three-year period (i.e 01 April 2023 - 31 March 2026) but only after a consecutive period of 12 months meeting the qualifying conditions.

Provided the municipality meets the set conditions the following balance would be written-off :

	Current	2025/26	2026/27	Total
Principal amount	130 591 385	130 591 385	130 591 385	391 774 155

15. Consumer deposits

Electricity	365 136	363 319
Other	(765)	5 233
	364 371	368 552

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16. Employee benefit obligations

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

Carrying value

Present value of the defined benefit obligation-wholly unfunded	(16 056 000)	(14 376 208)
Present value of the defined benefit obligation-partly or wholly funded	(5 060 000)	(4 450 188)
	(21 116 000)	(18 826 396)
Non-current liabilities	(19 634 000)	(17 686 378)
Current liabilities	(1 482 000)	(1 140 018)
	(21 116 000)	(18 826 396)

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16. Employee benefit obligations (continued)

Defined contribution plans

Post retirement medical aid plan

Balance at beginning of period	14 376 208	13 201 890
Contributions to provision	2 687 510	2 542 255
Balance at the end of period	17 063 718	15 744 145
Transfer to current liabilities	(767 000)	(690 480)
Actuarial loss/(gain)	(240 718)	(677 457)
	16 056 000	14 376 208

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

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2025 by Ms. Julian van der Spuy, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

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

In-service members (employees)	106	103
Continuation members	11	13
	117	116

The unfunded liability in respect of past service has been estimated as follows:

In-service members (employees)	9 031 000	8 468 046
Continuation members	7 025 000	5 890 162
	16 056 000	14 358 208

The current-service cost for the year ending 30 June 2025 is estimated to be R773 890, whereas the cost for the ensuing year is estimated to be R725 000 (30 June 2024: R713 616 and R773 890 respectively).

Key assumptions used

The principal assumptions used for the actuarial valuations was as follows:

Discount rate	12,99%	13,50%
Consumer price inflation	7,43%	5,20%
Health care cost inflation rate	8,93%	8,90%
Net effective discount rate	3,73%	4,23%
Expected retirement age - females	63	63
Expected retirement age - males	63	60

Movements in the present value of the defined benefit obligation were as follows:

Balance at beginning of the year	14 376 208	13 201 890
Current service costs	773 890	713 616
Interest cost	1 898 620	1 828 639
Benefits paid	(752 000)	(690 480)

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16. Employee benefit obligations (continued)

Actuarial loss/(gain)	16 296 718	15 053 665
	(240 718)	(677 457)
	16 056 000	14 376 208

The amounts recognised in the Statement of Financial Performance are as follows:

Current service cost	773 890	713 616
Interest cost	1 898 620	1 828 639
Actuarial losses/(gains)	(240 718)	(677 457)
	2 431 792	1 864 798

The effect of a 1% movement in the assumed rate of health care cost inflation is as follows:

2025	One percentage point increase	One percentage point decrease
Effect on the aggregate of the current service cost	197 000	(150 000)
Effect on the aggregate of interest cost	383 000	(303 000)
Effect on defined benefit obligation	2 852 000	(2 265 000)
	3 432 000	(2 718 000)

The effect of a 1% movement in the assumed rate of health care cost inflation for 2024 is as follows:

2024	One percentage point increase	One percentage point decrease
Effect on the aggregate of the current service cost	200 321	(153 719)
Effect on the aggregate of interest cost	(471 011)	(278 258)
Effect on defined benefit obligation	2 590 323	(2 062 974)
	2 319 633	(2 494 951)

The municipality expects to make contribution of R2,673 million (2023: R2,542 million) to the defined benefit plans during the next financial year.

Other assumptions - Post retirement medical aid

It is assumed that healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit

Defined contribution plan

Certain councillors and certain employees belong to the defined benefit plan of the Natal Joint Superannuation and retirements funds, and the Municipal Councillors Pension Fund. Employees of Mpofana make up less than 1% of the total members of the funds. Mpofana's liability in these funds could not be determined owing mainly to the assets not being allocated to each municipality and one set of financial being prepared for each fund and not per municipality. These funds are subject to triennial actuarial valuations. The last statutory valuations was performed in March 2022 on the retirement and provident funds and in March 2018 on the Superannuation Fund. An interim valuation of the Superannuation fund was done in March 2022.

Long service awards

Provision for long service awards	5 060 000	4 450 188
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The movement in non-current provisions are reconciled as follows:

Long-term service		
Balance at beginning of year	4 450 188	4 280 199

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Figures in Rand	2025	2024
16. Employee benefit obligations (continued)		
Contributions to provision	1 130 812	782 416
	5 581 000	5 062 615
Transfer to current provisions	(521 000)	(612 427)
	5 060 000	4 450 188

A long-service award is payable after 5 years of continuous service and every 5 years thereafter to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2025 by Ms. Julian van der Spuy, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

At year-end, 126 (2024: 126) employees were eligible for long-service awards.

The current service costs for the year ending 30 June 2025 is estimated to be R386 152, whereas the cost for the ensuing year is estimated to be R436 000 (30 June 2024: R376 144 and R386 152 respectively).

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount rates	10.03%	10.89%
Consumer Price Inflation	4.61%	5.16%
Salary Increase Rate	5.61%	6.16%
Net effective discount rate	4.19%	4.46%
Normal retirement age - females	65	65
Normal retirement age - males	65	65

Movements in the present value of the defined benefit obligation were as follows:

Balance at the beginning of the year		
Current service costs	4 450 188	4 280 199
Interest cost	386 152	376 144
Benefits paid	456 378	460 725
Actuarial losses/(gains)	(521 000)	(612 427)
	288 282	(54 453)
	5 060 000	4 450 188

In accordance with transitional provisions for the amendments to GRAP 25 employee benefits in December 2004, the disclosures above are determined prospectively from the 2006 reporting.

The effect of a 1% movement in the assumed rate of long-service cost inflation is as follows:

2025	One percentage point increase	One percentage point decrease
Effect on the aggregate of the current service cost	36 000	(33 000)
Effect on the aggregate of interest cost	42 000	(37 000)
Effect on defined benefit obligation	383 000	(344 000)
	461 000	(414 000)

2024	One percentage point increase	One percentage point decrease
Effect on the aggregate of the current service cost	(416)	(55 223)

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16. Employee benefit obligations (continued)		
Effect on the aggregate of interest cost	25 724	(41 475)
Effect on defined benefit obligation	236 172	(380 770)
	261 480	(477 468)

The municipality expects to make a contribution of R940 000 (2024: R836 869) to the defined benefit plans during the next financial year.

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts			
Municipal Infrastructure Grant	1 837 900		-
Craigburn Housing Project Grant	5 840 388	5 840 388	
Municipal Assistant Grant - Small Town Grant	564 621	564 621	
Townview Housing Project Grant	8 168 481	8 168 481	
Municipal Disaster Grant	4 751 425	8 627 335	
Transport Grant	134 000		-
Integrated National Electrification Programme (INEP)		-	2 542 840
Local Government Sector Education and Training Authority (LGSETA)	444 198	357 186	
Title Deeds Grant	499 659	499 659	
Energy Efficiency and Demand Management Grant	18 962		-
	22 259 634	26 600 510	

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

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

See note 25 for reconciliation of grants from National/Provincial Government.

The unspent government grants and subsidies are not cash backed.

Mpofana Municipality

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18. Provisions

Reconciliation of provisions - 2025

	Opening Balance	Finance cost	Reduction due to re-measurement or settlement without cost to entity	Total
Provision for restoration of landfill site	18 480 584	2 206 581	(1 813 582)	18 873 583

Reconciliation of provisions - 2024

	Opening Balance	Finance cost	Reversed during the year	Reduction due to re-measurement or settlement without cost to entity	Total
Provision for restoration of landfill site	16 617 024	2 097 068	-	(233 508)	18 480 584
Provision for performance bonus	294 401	-	(294 401)	-	-
	16 911 425	2 097 068	(294 401)	(233 508)	18 480 584
Non-current liabilities				17 331 611	17 660 292
Current liabilities				1 541 972	820 292
				18 873 583	18 480 584

The landfill site provision is raised for the rehabilitation of the waste disposal site to its original state once the site has reached the end of its useful life.

A discount factor was applied based on prime interest and adjustment for Municipal specific risk.

The timing or amounts of any resulting outflows or economic benefit cannot be estimated.

No provision has been made for performance bonuses as It is not probable that they will be paid out given the financial position of the municipality.

19. Service charges

Sale of electricity - Metered	33 257 699	30 309 815
Refuse removal	5 473 207	5 045 857
Sale of electricity - Prepaid	20 763 063	12 158 050
	59 493 969	47 513 722

20. Rental of facilities and equipment

Premises		
Rental of facilities	175 531	249 884

21. Licences and permits (exchange)

Road and Transport	4 854 263	4 965 144
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21. Licences and permits (exchange) (continued)

The Municipality has entered into an arrangement with the KwaZulu-Natal Department of Transport for collecting licences and permit fees for all vehicles and customers with the Municipal arrear. The Municipality is an agent to the transaction and all licence and permit fees are determined and handed over to KwaZulu-Natal Department of Transport. The Municipality has the responsibility to appoint the employees to render the services. Therefore, the arrangement has been accounted for as an agent in terms of GRAP 109.

22. Other income

Tender Documents	2 609	24 239
Income from N3 TC	901 960	886 956
Sundry Income	94	650
Cemetery fees	75 467	73 550
Town Hall Hire	16 071	6 982
Valuation roll objection fee	-	285
Rates Clearance	104 530	21 636
Business Licences	21 209	13 994
Building Plans	115 810	43 216
Library photocopying fees	43 273	-
Taxi permits	3 591	1 565
Income from Sanral	908 000	5 448 000
	2 192 614	6 521 073

23. Interest received

Interest revenue

Other financial assets - uMsunduzi vehicles loan	102 495	-
Bank	456 038	572 186
	558 533	572 186

Interest income includes interest on bank accounts and interest levied on the outstanding balance for the uMsunduzi vehicles loan as at 30 June 2025 based on the implicit effective rate of 6.1%. See note 4 for details on the loan.

Mpofana Municipality

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24. Property rates

Rates received

Residential	14 414 226	10 801 258
Commercial	4 314 820	5 079 683
State	848 387	2 592 966
Municipal (Agricultural)	3 328 240	4 364 856
Public Benefit Organisation	219 194	212 984
Public Service Infrastructure	21 454	4 774
Less: Income forgone	(5 973 582)	(5 814 445)
	17 172 739	17 242 076

Valuations

Agriculture	3 021 575 000	2 978 515 000
Business & Commercial	444 535 000	453 605 000
Residential	1 221 700 500	1 199 495 500
Municipal	95 008 000	97 733 000
Industrial	75 130 000	74 030 000
Place of Worship	25 070 000	26 170 000
Public Benefit Organisation	125 790 000	125 790 000
Public Service Infrastructure	15 711 000	15 711 000
Other	231 892 000	236 722 000
	5 256 411 500	5 207 771 500

Property rates levied in terms of the Local Government: Municipal Property Rates Act. No. 6 of 2004 (MPRA) with effect from 01 July 2007.

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

Adjustments to the valuation roll in terms of Section 78 of the Municipal Property Rates Act No. 6 of 2004 (as amended) are effected on an on-going basis. The adjustments take into account consolidations and sub-divisions as well as property category changes. Thus, interim valuations are processed on an annual basis.

Assessment Rates: Cents per Rand on market valuations are as follows:	Other Rebates 2024/25	Rebates 2023/24	Tariff 2024/25	Tariff 2023/24
Agriculture	-	- %	- %	0.001356
Business and Commercial	-	- %	- %	0.008224
Industrial	-	- %	- %	0.015671
Municipal	-	100 %	100 %	0.000000
Place of worship	-	100 %	100 %	0.000000
Protected area	-	100 %	100 %	0.000000
Public benefit Organisation	-	- %	- %	0.001724
Public service infrastructure	-	- %	- %	0.001724
Public service purpose	-	- %	- %	0.017239
Residential - Urban	90 000	35 %	35 %	0.008620
Residential - Rural	90 000	50 %	45 %	0.008620
Vacant land	-	- %	- %	0.008620
Vacant land (Rural)	-	- %	- %	0.000000

For the calculation of rates, residential properties are subject to an exemption of R90 000 (2022: R90 000) of the valuation of the properties.

Pensioners rebate: Older than 65 years at 35% for both urban and rural.

Rate are levied on an annual basis for government entities. Rates are levied on a monthly basis for all other customers.

Mpofana Municipality

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24. Property rates (continued)

Rates are payable monthly in twelve (12) equal instalments with the first instalment payable on the 1st July 2024 and the last installment payable on the 30th June 2025.

25. Government grants & subsidies

Operating grants

Equitable share	48 961 000	46 128 952
Expanded Public Works Programme (EPWP)	1 567 000	1 215 000
Municipal Infrastructure Grant - Operating	300 000	-
Municipal Disaster Management Grant -Operational	-	1 372 665
Energy Efficiency and Demand Management Grant	2 981 038	-
Transport grant	1 462 500	2 403 500
Library Grant	2 835 000	2 218 001
Financial Management Grant	3 000 000	3 000 000
Museum Subsidy Grant	260 000	249 000
	61 366 538	56 587 118

Capital grants

Municipal Infrastructure Grant	11 227 100	20 063 000
Municipal Assistant Grant - Small Town	-	153 619
Municipal Disaster Management Grant - Capital	16 921 751	-
	28 148 851	20 216 619
	89 515 389	76 803 737

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	40 554 389	30 674 785
Unconditional grants received	48 961 000	46 128 952
	89 515 389	76 803 737

Equitable Share

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

Current year - receipts	48 961 000	46 412 000
Current year - transfer to revenue	(48 961 000)	(46 128 952)
Transfers withheld during the period	-	(283 048)
	-	-

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	2 561 952
Current-year receipts	13 365 000	20 063 000
Conditions met - transferred to revenue	(11 527 100)	(20 063 000)
Transfers withheld during the period	-	(2 561 952)
	1 837 900	-

Conditions still to be met - remain liabilities (see note 17).

This grant was used to address backlogs in municipal infrastructure required for the provision of basic services.

Mpofana Municipality

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25. Government grants & subsidies (continued)

Craigburn Housing Project Grant

Balance unspent at beginning of year	5 840 388	5 840 388
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Conditions still to be met - remain liabilities (see note 17).

The grant is provided by Provincial Department of Human Settlement to deliver the service of housing infrastructure.

Municipal Assistance Grant - Small Town Grant

Balance unspent at beginning of year	564 621	718 239
Conditions met - transferred to revenue	-	(153 618)
	564 621	564 621

Conditions still to be met - remain liabilities (see note 17).

This subsidy is provided by the Department of Cooperative Governance and Traditional Affairs to perform feasibility studies with a view to developing the town by improving its economic state and attracting investment.

Transport Grant

Current-year receipts	1 596 500	2 403 500
Conditions met - transferred to revenue	(1 462 500)	(2 403 500)
	134 000	-

Conditions still to be met - remain liabilities (see note 17).

This subsidy is provided for feasibility study for the transportation hub in the local area of Mpofana and along the national route.

Townview Housing Project Grant

Balance unspent at beginning of year	8 168 481	8 168 481
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Conditions still to be met - remain liabilities (see note 17).

The grant is from Provincial Department of Human Settlements to provide service of housing infrastructure.

Municipal Disaster Management Grant

Balance unspent at beginning of year	8 627 335	-
Current-year receipts	17 950 000	10 000 000
Conditions met - transferred to revenue	(16 921 751)	(1 372 665)
Repayment of funds	(4 904 159)	-
	4 751 425	8 627 335

Conditions still to be met - remain liabilities (see note 17).

The grant is from Provincial Department of Cooperative Governance and Traditional Affairs (Cogta) for maintenance of infrastructure that has been affected by the floods.

Mpofana Municipality

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25. Government grants & subsidies (continued)

Finance Management Grant

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

To promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA).

Expanded Public Works Programme Grant

Current-year receipts	1 567 000	1 215 000
Conditions met - transferred to revenue	(1 567 000)	(1 215 000)
	-	-

This subsidy was provided by Department of Public Works to assist with the alleviation of poverty in the municipal area by providing temporary employment for the unemployed.

Library Grant

Current-year receipts	2 835 000	2 218 000
Conditions met - transferred to revenue	(2 835 000)	(2 218 000)
	-	-

The library subsidy was provided by Department of Arts and Culture in order to assist municipalities to deliver on the unfunded mandate of the provision of library services in their respective areas.

Learnership Awareness Programme Grant (LGSETA)

Balance unspent at beginning of year	357 186	78 738
Current-year receipts	87 012	278 448
	444 198	357 186

Conditions still to be met - remain liabilities (see note 17).

The grant is provided by SETA for training and development of municipal employees.

Energy Efficiency and Demand Management Grant

Current-year receipts	3 000 000	-
Conditions met - transferred to revenue	(2 981 038)	-
	18 962	-

Conditions still to be met - remain liabilities (see note 17).

The grant is provided by the department of mineral resources and energy for the programme focusing on the determination of energy consumption baseline, installation of an energy management system, supply and installation of energy efficient technologies within municipal facilities and issuing and display of Energy Performance Certificates (EPCs).

Mpofana Municipality

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Figures in Rand	2025	2024
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25. Government grants & subsidies (continued)

Museum Subsidy Grant

Current-year receipts	260 000	249 000
Conditions met - transferred to revenue	(260 000)	(249 000)
	-	-

The subsidy was granted to the municipality for operational upkeep of the museum.

Title Deeds Grant

Balance unspent at beginning of year	499 659	499 659
	-	-

Conditions still to be met - remain liabilities (see note 17).

The grant is provided by Department of Human Settlement to accelerate the transfer of ownership to qualifying occupants.

26. Fines, Penalties and Forfeits

Municipal Traffic Fines	4 469 000	7 191 953
	-	-

Mpofana Municipality

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Figures in Rand	2025	2024
27. Employee related costs		
Basic	43 481 483	39 859 018
Bonus	3 331 639	2 791 395
Medical aid - company contributions	4 493 878	4 291 834
UIF	317 063	323 222
SDL	513 880	486 336
Other payroll levies	30 610	19 775
Leave pay provision charge	227 728	496 450
Defined contribution plans	8 413 118	8 176 986
Travel, motor car, accommodation, subsistence and other allowances	3 852 909	2 987 231
Overtime payments	2 141 138	1 817 041
Long-service awards	262 320	(219 823)
Acting allowances	444 790	268 951
Housing benefits and allowances	503 708	740 144
Redemption of leave	148 308	258 403
Other # 8	639 600	-
	68 802 172	62 296 963

Remuneration of Municipal Manager

Dr EH Dladla

Annual Remuneration	555 444	531 091
Car Allowance	222 634	215 521
Housing Allowance	333 950	323 282
Other Payments and Allowances	-	40 680
Contributions to UIF, Medical and Pension Funds	11 598	11 594
	1 123 626	1 122 168

The 2023/24 workings for the separate remuneration disclosure for Dr Dladla incorrectly included under annual remuneration, an amount of R59 089 leave pay and separately, a cellphone allowance of R8000, both of which related to the 2022/23 financial year. The prior year disclosure has thus been restated.

These allowances are however included in the correct period on the total employee related cost disclosed in the prior year.

Other payments and allowances are made up of back pay.

Remuneration of Chief Finance Officer

Mr P Molefe

Annual Remuneration	18 236	442 386
Car Allowance	7 312	176 954
Housing Allowance	11 012	265 432
Other Payments and Allowances	66 070	40 680
Contributions to UIF, Medical and Pension Funds	1 200	11 163
	103 830	936 615

Chief Financial Officer (Mr P Molefe) resigned as of 12 July 2024.

Other payments and allowances disclosed in 2023/24 include an amount for back pay removed from annual remuneration and disclosed separately. For 2024/25, the figure includes leave pay.

Remuneration of General Manager - Technical Services

Ms M Mbatha

Annual Remuneration	-	467 433
Car Allowance	-	72 880
Other Payments and Allowances	-	36 774

Mpofana Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2025	2024
27. Employee related costs (continued)		
Contributions to UIF, Medical and Pension Funds	- 7 106	584 193

Miss M Mbatha resigned as General Manager: Technical Services as of 31 January 2024.

The 2023/24 workings for the separate remuneration disclosure for Ms Mbatha incorrectly omitted an amount of R7 106 for contributions to UIF, Medical and Pension Funds. The prior year disclosure has thus been restated. This amount is however included in the total employee related cost disclosed in the prior year

Other payments and allowances disclosed in 2023/24 include amounts for back pay and leave pay removed from annual remuneration and disclosed separately.

Remuneration of General Manager - Technical Services

Mrs SYPT Mhlongo			
Annual Remuneration	685 477		-
Car Allowance	228 492		-
Contributions to UIF, Medical and Pension Funds	10 948		-
	924 917		-

Mrs Mhlongo was appointed as General Manager - Technical Services as of 01 July 2024.

General Manager - Corporate and Community Services

Mr ME Sithole			
Annual Remuneration	685 477	314 440	
Car Allowance	228 492	92 164	
Other Payments and Allowances	11 132	156 737	
Contributions to UIF, Medical and Pension Funds	10 064	5 819	
	935 165	569 160	

Mr ME Sithole resumed duties as General Manager: Corporate and Community Services on 01 February 2024.

Other payments and allowances disclosed in 2023/24 include payments for back pay, leave pay and long service removed from annual remuneration and disclosed separately. For 2024/25, the figure is an acting allowance.

28. Remuneration of councillors

Mayor	767 842	766 264
Speaker	544 844	406 035
Councillors	1 668 252	1 283 798
Councillors' medical contribution	18 844	14 675
Councillors' allowances	542 179	583 385
UIF	34 591	19 757
SDL	25 052	20 801
	3 601 604	3 094 715

In-kind benefits

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

The Mayor and the Deputy Mayor each have the use of separate Council owned vehicles for official duties.

The Mayor and Speaker have full-time bodyguards.

Mpofana Municipality

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29. Depreciation and amortisation		
Property, plant and equipment	15 466 816	14 778 307
Intangible assets	12 615	35 905
	15 479 431	14 814 212
30. Impairment loss		
Impairments		
Property, plant and equipment	7 152 737	-
Impairment loss relates to items of infrastructure whose condition was assessed as impaired during the annual physical verification of assets.		
[Disclose the following information for the aggregate impairment losses and the aggregate reversals of impairment losses recognised during the period for which no information has otherwise been disclosed:]		
The main classes of assets affected by impairment losses are:		
Infrastructure assets		
The main events and circumstances that led to the recognition of these impairment losses are as follows:		
Impairment loss relates to items of infrastructure whose condition was assessed as impaired during the annual physical verification of assets.		
31. Finance charges		
Finance cost post retirement plan	1 898 620	1 828 639
Interest and penalties	23 593 616	29 162 520
Provision of landfill site (unwinding)	2 206 582	2 097 068
Finance cost long service awards	456 378	460 725
	28 155 196	33 548 952
32. Debt impairment		
Contributions to debt impairment provision -Fines	4 193 069	7 494 677
Contributions to debt impairment provision- Exchange transactions	4 447 700	3 268 283
Contributions to debt impairment provision- Non-exchange transactions	(9 037 147)	3 795 751
	(396 378)	14 558 711
33. Bulk purchases		
Electricity - Eskom	81 004 140	72 721 413
34. Contracted services		
Outsourced Services		
Hygiene Services	231 660	209 663
Security Services	4 789 204	4 741 885
Contractors		
Electrical	2 592 207	-
Maintenance of Equipment	10 654	847 908
	7 623 725	5 799 456

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2025

2024

35. Operational expenses

Advertising	536 217	346 171
Auditors remuneration	2 685 235	1 211 409
Bank charges	541 647	258 745
Consulting and professional fees	3 014 039	2 616 075
Consumables	7 537 744	237 100
Legal expenses	2 591 804	3 475 041
Hire	5 326 439	13 059 245
Insurance	400 105	288 080
IT expenses	1 706 956	74 902
Motor vehicle expenses	951 707	1 087 577
Fuel and oil	4 363 249	5 833 621
Printing and stationery	1 048 200	220 559
Electricity Maintenance (Material & Supplies)	9 365 843	17 104 955
EPWP Casuals	2 068 202	1 725 710
Repairs and maintenance	2 887 614	4 930 605
Software expenses	5 158 621	3 799 992
Water Expenses	1 922 441	1 580 358
Subscriptions and membership fees	150 070	6 000
Telephone and fax	982 856	1 003 775
Collection costs	792 927	204 909
Uniforms	296 076	383 314
Sundry cost	6 000	540 156
Ward committee support	316 000	304 000
Maintenance of land-fill site	2 662 150	4 902 500
Write off	5 050	(2)
Meter replacement expenditure	2 314 126	565 978
Feasibility study costs	1 271 739	2 090 000
Convention bureau	136 500	2
Other expenses	2 592 645	415 229
District shared services	17 933	72 971
	63 650 135	68 338 977

36. Auditors' remuneration

Audit committee	173 339	115 281
Audit Fees	2 511 896	1 096 128
	2 685 235	1 211 409

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37. Cash generated from operations		
Deficit	(95 024 980)	(77 509 685)
Adjustments for:		
Depreciation and amortisation	15 479 431	14 814 212
Impairment loss	15 826 058	-
Reversal of debt impairment	(9 069 699)	14 558 711
Movements in operating lease assets and accruals	5 924	5 195
Movements in retirement benefit assets and liabilities	(112 958)	1 344 307
Movements in provisions	-	1 569 159
Leave pay accrual	157 829	-
Inventory losses or write-downs	116 075	-
Provisions related interest	4 561 580	-
Fair Value adjustment incl. Actuarial gain	(1 796 619)	(12 000)
VAT adjustment (impairment and capital payables)	2 777 170	-
Accrued bonus	105 728	-
Inventories	(415 187)	(21 450)
Receivables from exchange transaction	(912 816)	(17 159 616)
Other receivables from non-exchange transactions	-	1 287 833
Movement in financial assets	(102 496)	-
Receivables from non exchange transactions - Gross	(1 085 706)	-
Movement in payables relating to acquisition of assets - payables and accruals	(10 361 467)	-
Payables from exchange transactions - Capital	-	(309 722)
Payables from exchange transactions	121 696 554	78 202 466
VAT	(14 795 443)	(10 893 213)
Movement in payables relating to acquisition of assets - Retentions	1 720 194	-
Unspent conditional grants and receipts	(4 340 876)	8 733 053
Consumer deposits	(4 181)	(1 207)
VAT Impairment	(5 772 329)	-
Other payables from non-exchange transactions	-	2 636 996
	18 651 786	17 245 039

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38. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Bruntville Sport Field	321 279	1 761 486
• Phumlaas and Townview Road	-	718 203
• Mzilanyoni Gravel Road	-	9 467 644
• Mooi River Town Renewal	-	218 117
• Alexander Road	28 229	-
• Gower Road	85 696	-
• Weston Road	82 556	-
• Sterling Terrace	51 212	-
• Fife Road	61 934	-
	630 906	12 165 450

Total capital commitments

Already contracted for but not provided for

630 906 12 165 450

Authorised operational expenditure

Already contracted for but not provided for

• Approved and contracted	-	19 778 248
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Total operational commitments

Already contracted for but not provided for

- 19 778 248

The disclosure of operating commitments is not a mandatory disclosure in terms of GRAP, therefore from 2024/25, Mpofana Municipality will no longer disclose operating commitments on the annual financial statements. In 2023/24, operating commitments were made up of internal audit services, operational costs for landfill site, cash management services, financial system consultants, security services, cellphone contracts and valuation roll services.

Total commitments

Total commitments

Authorised capital expenditure	630 906	12 165 450
Authorised operational expenditure	-	19 778 248
	630 906	31 943 698

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39. Contingencies

Contingent Liabilities

Name of Plaintiff	Nature of Case	2025	2024
Loganathan Chetty	Loganathan Chetty v Mpofana Municipality - Claim against damages from vehicle cused by potholes	14 685	14 685
Zonke Engineering Consultants	Zonke Engineering Consultants v Mpofana Municipality - Claim against the municipality for work done.	895 056	895 056
KSA Security	Payment Outstanding	8 225 123	8 225 123
Etilweni (Pty) Ltd	Outstanding Fees	1 148 000	1 148 000
BPG Mass Appraisals (Pty) Ltd	BPG Mass Appraisals (Pty) Ltd v Mpofana Municipality - Review of tender award for Valuation Roll.	-	-
Greg's Auto Electrical Consultant	Greg's Auto Electrical Consultant v Mpofana Municipality	27 059	-
		10 309 923	10 282 864

Contingent assets

- The litigation matters disclosed as contingent assets in 2023/24 were reviewed during the preparation of the 2024/25 annual financial statements. It was concluded that those matters did not constitute contingent assets as the relief sought in court will not result in any possible inflow of economic benefits to the municipality. A decision was thus made to remove them accordingly, hence no disclosure is made on them in the 2024/25 financial period.

Name of Defendant	Nature of Case	2025	2024
uMsunduzi Municipality	Claim to replace municipal fleet or pay Mpofana Municipality per the contract. Contingent amount is the balance being claimed after deducting amount already paid and amount disclosed as a financial asset.	1 426 229	-
Illegal invaders of property R622/Greytown Main Road intersection Mooi River/Bruntville/link Road (Erf 13025,Erf 1049, Erf 1464) Adjacent to Erf 5/13025	Interdict and Restrain the Respondents from invading, erecting structures and attempting to occupy the immovable property.	-	269 428
	Interdict and eviction of illegal tenants erecting structures and occupying the property	-	22 977
		1 426 229	292 405

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40. Related parties

Relationships

Accounting Officer	Refer to accounting officers' report note
Chief Financial Officer	Refer to note 27
General Manager: Technical Services	Refer to note 27
General Manager: Corporate and Community Services	Refer to note 27

The municipality and individuals as well as their close family members and/or entities are related parties if one has the ability, directly, indirectly 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.

41. Risk management

Financial risk management

Due to largely non-trading nature of the activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by other business entities.

The municipality's finance function monitors and manages the financial risks relating to the operations of the municipality. These risks include credit risk, liquidity risk, market risk relating to interest rate risk.

Liquidity risk

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

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

Maximum liquidity exposure

Payables from exchange transactions	683 040 426	563 502 868
Other payables from non-exchange transactions	2 882 836	-
Unspent conditional grants and receipts	22 259 634	26 600 510
	708 182 896	590 103 378

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41. Risk management (continued)

Credit risk

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

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

The municipality has the credit control unit that is responsible for managing the credit risk of all the accounts receivables from exchange and non-exchange transactions. The Credit control unit uses the debtors age analysis to assess all the accounts that are overdue and draft the notice of disconnection. Where the customer has not made any attempt to settle the account, a disconnection of municipal services is implemented. Customers that are not disconnected are handed over to the legal counsel for summons to demand the amount receivable.

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

Financial instrument	2025	2024
Cash and cash equivalents	8 436 579	2 304 053
Receivables from non-exchange transactions	18 919 493	12 345 018
Receivables from exchange transactions	10 210 149	8 617 395

Market risk

The municipality is exposed to the following market risks:

Interest rate risk

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

Cash and cash equivalents	8 436 579	2 304 053
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Price risk

Due to legislative restrictions, the municipality does not trade these investments.

42. Going concern

We draw attention to the fact that at 30 June 2025, the municipality had a surplus (deficit) of (95 024 980) and that the municipality's total liabilities exceed its assets by (390 949 132).

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer's continued ability to secure funding for operational needs, particularly the refurbishment of electricity infrastructure and urgent intervention to address significant monthly losses in the ring-fenced electricity function.

The municipality holds significant unspent grants of R22 259 634 (2024: R26 600 510), which are not fully cash-backed.

Long outstanding issues in the debtors' system have negatively impacted collections and revenue. Council suspended interest charges on overdue accounts while system challenges are being addressed. While positive progress has been made, it remains work in progress.

Mpofana Municipality

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42. Going concern (continued)

The liquidity ratio at year-end was 0.20:1 (2024: 0.20:1), indicating that the municipality is unable to settle creditors as they fall due. This is reflected in increased trade payables of R682.6m (2024: R563.5mil).

Management is implementing measures to improve the municipality's financial position and performance including but not limited to:

1. A debt incentive scheme to recover long-outstanding amounts.
2. Payment plans for customers to improve collection rates.
3. Legal action against customers with large unpaid balances.
4. Engagement of debt collectors to recover debts older than 90 days.
5. Exploration of new income streams and other measures to improve collections and reduce electricity losses.
6. Implementing cost cutting measures to reduce unnecessary expenditure.

43. Events after the reporting date

There are no material events that occurred after the reporting date, 30 June 2025.

44. Unauthorised expenditure

Opening balance as previously reported	333 491 148	347 690 690
Add: Unauthorised expenditure - current	47 247 076	85 724 750
Less: Amount authorised - prior period	-	(99 924 292)
Closing balance	380 738 224	333 491 148

Unauthorised expenditure: Budget overspending

Employee related costs	5 324 184	3 801 052
Remuneration of councillors	474 886	-
Inventory losses	116 075	-
Construction contracts expense (INEP)	797 391	27 196 661
Finance costs	6 621 129	4 162 586
Operational costs (General expenses)	24 095 351	28 525 414
Bulk purchases	9 558 378	10 590 414
Depreciation and amortization	152 072	-
Loss on disposal of assets and liabilities	46	-
Actuarial losses	47 564	-
Grants spent for unintended purposes	-	11 448 623
Transfer and subsidies	60 000	-
Closing balance	47 247 076	85 724 750

Disciplinary steps taken/criminal proceedings

Investigations are being conducted by MPAC.

45. Irregular expenditure

Opening balance as previously reported	137 814 934	98 879 001
Add: Irregular expenditure - current	14 753 730	22 790 094
Add: Irregular expenditure - prior period	11 591 271	16 145 839
Less: Amount written off - current	(56 489 689)	-
Closing balance	107 670 246	137 814 934

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45. Irregular expenditure (continued)

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

	Disciplinary steps taken/criminal proceedings		
SCM processes were not followed - Quotations were not obtained	The incident has been reported to Council and MPAC have dealt with the matter	183 463	3 138 179
Competitive bidding not followed	The incident has been reported to Council and MPAC have dealt with the matter	14 574 770	28 751 117
Contract expired	The incidents have been/will be reported to Council and MPAC	4 227 391	204 240
Structured processes of appointing from the Panel was not followed correctly	The incident has been reported to Council and MPAC have dealt with the matter	1 744 175	-
Inconsistencies between the requested returnable documents as per the bid documents and returnable documents evaluated by the Bid Evaluation Committee	The incident has been reported to Council and MPAC have dealt with the matter	5 576 262	6 842 396
Incomplete MBD 4	The incident will be reported to Council and MPAC	38 941	-
		26 345 002	38 935 932

46. Deviation from supply chain management regulations

In terms of section 36(2) of the Municipal Supply Chain Management Regulations approved by council, any deviations from the Supply Chain management Policy needs to be approved / condoned by the Municipal Manager and noted by Council. The municipality incurred deviations in terms of section 36(2) of the Municipal Supply Chain Regulations and noted by Council

Total Section 36 Deviations for the financial year

Emergencies	723 577	87 400
Sole provider	33 774	5 044
Exceptional case	494 079	787 345
	1 251 430	879 789

Mpofana Municipality

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47. Fruitless and wasteful expenditure		
Opening balance as previously reported	12 759 908	871 355
Add: Fruitless and wasteful expenditure identified - current	23 625 071	29 841 533
Less: Amount written off - current	(19 663 363)	-
Less: Amount written off - prior period	(11 888 554)	(17 952 980)
Closing balance	4 833 062	12 759 908

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47. Fruitless and wasteful expenditure (continued)

Details of fruitless and wasteful expenditure

	Disciplinary steps taken/criminal proceedings		
Interest	Investigations are being conducted by MPAC	22 329 287	29 261 997
Penalties	Investigations are being conducted by MPAC	1 264 329	579 536
Overpayment	Investigations are being conducted by MPAC	31 455	-
		23 625 071	29 841 533

48. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	5 294 068	3 977 750	
Current year subscription / fee	693 801	1 351 318	
Amount paid - current year	(8 250)	-	
Amount paid - previous years	-	(35 000)	
	5 979 619	5 294 068	

The municipality is committed to settle the amount that has not been honoured in the previous years due to limited resources.

Audit fees

Opening balance	-	285 694	
Current year subscription / fee	2 947 906	1 096 128	
Amount paid - current year	(973 973)	(1 096 128)	
Amount paid - previous years	-	(285 694)	
	1 973 933	-	

Mpofana Municipality

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

PAYE and UIF

Opening balance	3 065 091	1 380 231
Current year subscription / fee	10 045 297	9 415 565
Amount paid - current year	(8 659 113)	(5 597 132)
Amount paid - previous years	-	(2 133 573)
	4 451 275	3 065 091

Pension and Medical Aid Deductions

Opening balance	1 579 254	1 371 256
Current year subscription / fee	18 950 721	18 185 250
Amount paid - current year	(16 777 540)	(16 591 636)
Amount paid - previous years	(1 517 583)	(1 385 616)
	2 234 852	1 579 254

VAT

VAT Accrual, Receivable & Payable	69 969 965	55 174 522
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Separate amounts for VAT receivables is disclosed on note 6, VAT accrual on note 50 and VAT payable on note 51.

All VAT returns have been submitted by the due date throughout the year. VAT payable based on returns declared to SARS is shown in Note 50.

Councillors' arrear consumer accounts

There were no councillors with arrear accounts outstanding for more than 90 days as at 30 June 2025. The following Councillor had arrear accounts outstanding for less than 90 days as at 30 June 2025. The account was subsequently settled in full on 14 August 2025.

	30 June 2025	Outstanding	Outstanding	Total
		less than 90 days	more than 90 days	
Councillor SM Mchunu		1 369	-	1 369
30 June 2024		Outstanding	Outstanding	Total
		less than 90 days	more than 90 days	
Councillor SM Mchunu		2 612	2 563	5 175
30 June 2024		Highest	Aging	
		outstanding amount	(in days)	
Councillor SM Mchunu		1 257	180	

49. Material Losses

Electricity distribution losses	52 215 272	53 223 982
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Mpofana Municipality

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49. Material Losses (continued)

Electricity energy losses of 21 029 768.90 kWh as at June 2025 (June 2024: 23 481 018 kWh) occurred during the year which resulted in revenue loss amounting to R52 215 272 (June 2024: R53 223 982). The National norm for electricity losses range from 6% to 12%. The energy loss incurred by the municipality as at June 2025 is 58.10% (June 2024: 63.51%) and is mainly due to transmission / distribution losses and illegal connections.

50. VAT Accrual

VAT Accrual	36 570 687	35 539 698
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VAT accrual pertains to VAT output amounts from trade activities levied on taxable supplies but not yet declared on the VAT return to the South Africa Revenue Services.

VAT is recognised/accounted for on a payment basis.

These amounts are payable by the municipality as a result of transaction attracting value added tax (VAT) as legislated under the Value Added Tax 89 of 1991 from the South African Revenue Services. VAT is deemed as Statutory payables. No impairment against the VAT accrual.

VAT declared on the VAT returns to the South African Revenue Services is disclosed as VAT payable in Note 51.

51. VAT Payable/Receivable - SARS

The VAT payable of R430 616 (2025) and receivable of R95 256 (2024) pertain to VAT declared on the VAT return to the South African Revenue Services.

VAT is recognised/accounted for on a payment basis. Once payment is received from customers/receivables, VAT is paid over to SARS.

These amounts are receivable by the municipality as a result of transaction attracting value added tax (VAT) as legislated under the Value Added Tax 89 of 1991 from the South African Revenue Services. VAT is deemed as Statutory Receivables. No impairment against the VAT payable.

52. Other payables from non-exchange transactions

Other payables from non-exchange transactions of R2 882 836 (2024: R2 636 669) represent receivables with credit balances from rates.

53. Transfer and subsidies

Other subsidies

SPCA	60 000	-
Other	4 200	-
	64 200	-

54. Finance costs reversed

ESKOM interest reversed	-	35 860 029
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During the 2023/24 financial period ESKOM reversed the amount of interest that was charged to the Municipality in the that period and the prior years. The interest that was reversed was reflected on the statement of accounts from ESKOM for the month of April 2024.

55. Fair value adjustments

56. Financial instruments disclosure

Categories of financial instruments

2025

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56. Financial instruments disclosure (continued)

Financial assets

	At amortised cost	At cost	Total
Other financial assets	1 782 749	-	1 782 749
Trade and other receivables from exchange transactions	-	10 210 149	10 210 149
Other receivables from non-exchange transactions	-	18 919 493	18 919 493
Cash and cash equivalents	-	8 435 979	8 435 979
Loan receivables	-	399 638	399 638
	1 782 749	37 965 259	39 748 008

Financial liabilities

	At cost	Total
Trade and other payables from exchange transactions	682 580 143	682 580 143
Taxes and transfers payable (non-exchange)	22 259 634	22 259 634
	704 839 777	704 839 777

2024

Financial assets

	At amortised cost	At cost	Total
Other financial assets	1 680 253	-	1 680 253
Trade and other receivables from exchange transactions	-	8 617 395	8 617 395
Other receivables from non-exchange transactions	-	12 345 018	12 345 018
Cash and cash equivalents	-	2 304 053	2 304 053
Loan receivable	-	399 638	399 638
	1 680 253	23 666 104	25 346 357

Financial liabilities

	At cost	Total
Trade and other payables from exchange transactions	563 502 868	563 502 868
Taxes and transfers payable (non-exchange)	26 600 510	26 600 510
	590 103 378	590 103 378

57. Prior-year adjustments

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

Statement of financial position

Mpofana Municipality

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57. Prior-year adjustments (continued)

2024

	Note	As previously reported	Re-classification	Restated
VAT Receivable	6	55 174 522	35 444 442	90 618 964
VAT Payable/Receivable - SARS	51	-	95 256	95 256
VAT Accrual	50	-	(35 539 698)	(35 539 698)
Payables from non-exchange transactions	52	-	(2 636 996)	(2 636 996)
Payables from exchange transactions	14	(563 502 868)	2 636 996	(560 865 872)
		(508 328 346)		- (508 328 346)

Reclassifications

The following reclassifications adjustment occurred:

VAT

[Separate disclosure of VAT payable and receivables]

It was identified during the preparation of the 2024/25 annual financial statements that VAT was not separated into different categories in the 2023/24 financial statements. Reclassification was thus made to separate VAT and recognise the different components namely, VAT payable or receivable from trading activities and VAT payable or receivable from declarations made to the South African Revenue Services.

Payables from non-exchange transactions

It was identified during the preparation of the 2024/25 annual financial statements that receivables with credit balances reclassified from receivables from non-exchange transactions was incorrectly classified as payables from exchange transactions instead of payables from non-exchange transactions in the 2023/24 annual financial statements. These have now been reclassified accordingly.

58. Construction contractor revenue (INEP)

Integrated National Electrification Programme

797 391 27 196 661

The Integrated National Electrification Programme Grant (INEP) has been accounted for in accordance with the provisions of GRAP 11. Revenue from INEP grant has been recognised in terms of stage of completion that has been determined by the project consultants.

59. Construction contract expenditure (INEP)

Integrated National Electrification Programme

797 391 27 196 661

The Integrated National Electrification Programme Grant (INEP) has been accounted for in accordance with the provisions of GRAP 11. Construction contracts expenditure from INEP grant has been incurred during the financial period.

Mpofana Local Municipality

Appendix E(1)

June 2025

Actual versus Budget (Revenue and Expenditure) for the year ended 30 June 2025

	Current year	Current year	Explanation of Significant Variances greater than 10% versus Budget	
	2024	2024	Variance Rand	Var
	Act. Bal. Rand	Adjusted budget Rand		
Revenue				
Property rates	13 476 974	18 096 254	(4 619 280) (25,5)	Refer to explanation documented in Statement of Comparison of Budget v Actual amounts
Service charges	59 493 969	69 928 699	(10 434 730) (14,9)	Refer to explanation documented in Statement of Comparison of Budget v Actual amounts
Rental of facilities and equipment	175 531	224 438	(48 907) (21,8)	Refer to explanation documented in Statement of Comparison of Budget v Actual amounts
Government grants and subsidies	89 515 389	92 235 000	(2 719 611) (2,9)	
Fines, penalties and forfeits	4 545 211	8 018 478	(3 473 267) (43,3)	Refer to explanation documented in Statement of Comparison of Budget v Actual amounts
Licences and permits	4 854 263	5 198 912	(344 649) (6,6)	
Construction contracts (INEP)	797 391	-	797 391 (100,0)	Refer to explanation documented in Statement of Comparison of Budget v Actual amounts
Sale of goods	-	1 156 411	(1 156 411) (100,0)	Refer to explanation documented in Statement of Comparison of Budget v Actual amounts
Operational revenue and Other income	2 192 615	8 505 430	(6 312 815) (74,2)	Refer to explanation documented in Statement of Comparison of Budget v Actual amounts
Interest earned from current and non-current assets	558 533	589 902	(31 369) (5,3)	Refer to explanation documented in Statement of Comparison of Budget v Actual amounts
	175 609 876	203 953 524	(28 343 648) (13,9)	
Expenses				
Employee related costs	(68 802 172)	(63 477 988)	(5 324 184) 8,4	
Remuneration of councillors	(3 601 604)	(3 126 718)	(474 886) 15,2	Refer to explanation documented in Statement of Comparison of Budget v Actual amounts
Transfer payments	(797 391)	-	(797 391) 100,0	Refer to explanation documented in Statement of Comparison of Budget v Actual amounts
Depreciation and amortization	(14 890 002)	(14 893 603)	3 601 -	
Impairments	(7 152 737)	-	(7 152 737) -	
Finance costs	(28 155 196)	(19 720 483)	(8 434 713) 42,8	Refer to explanation documented in Statement of Comparison of Budget v Actual amounts
Debt Impairment	5 744 529	(9 959 667)	15 704 196 (157,7)	Refer to explanation documented in Statement of Comparison of Budget v Actual amounts
Bulk purchases	(81 004 140)	(71 445 762)	(9 558 378) 13,4	Refer to explanation documented in Statement of Comparison of Budget v Actual amounts
Contracted Services	(7 623 725)	(15 487 532)	7 863 807 (50,8)	Refer to explanation documented in Statement of Comparison of Budget v Actual amounts
Transfers and Subsidies	(64 200)	(4 200)	(60 000) 428,6	Refer to explanation documented in Statement of Comparison of Budget v Actual amounts
Operational cost	(64 911 976)	(21 181 934)	(43 730 042) 206,4	Refer to explanation documented in Statement of Comparison of Budget v Actual amounts
	(271 258 614)	(219 297 887)	(51 960 727) 23,7	
Other revenue and costs				
Gain or loss on disposal/write off of assets and liabilities	(116 121)	-	(116 121) 100,0	Refer to explanation documented in Statement of Comparison of Budget v Actual amounts
Actuarial gains/losses	(47 564)	-	(47 564) 100,0	Refer to explanation documented in Statement of Comparison of Budget v Actual amounts
Fair value adjustments	1 844 183	-	1 844 183 100,0	Refer to explanation documented in Statement of Comparison of Budget v Actual amounts
	1 680 498	-	1 680 498 -	
Net surplus/ (deficit) for the year	(93 968 240)	(15 344 363)	(78 623 877) 512,4	

Mpofana Local Municipality

Appendix E(1)

June 2025

Actual versus Budget (Revenue and Expenditure) for the year ended 30 June 2025

Current year		Current year		Explanation of Significant Variances greater than 10% versus Budget
2024	2024	Act. Bal.	Adjusted budget	

Mpofana Local Municipality

Appendix F

Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003

June 2025

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly Expenditure				Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act
		Sept	Dec	Mar	Jun	Sept	Dec	Mar	Jun	
Equitable Share	National Treasury	20 400 000	12 598 000	8 516 000	7 447 000	20 400 000	12 598 000	8 516 000	7 447 000	Yes
Municipal Infrastructure Grant	National Treasury	5 495 000	3 775 000	4 095 000	-	-	6 748 037	3 121 503	1 657 561	Yes
INEP Grant	National Treasury	917 000	-	-	-	-	-	-	917 000	Yes
Finance Management Grants	National Treasury	3 000 000	-	-	-	-	1 665 852	74 664	1 259 484	Yes
EPWP	Public Works	317 000	570 000	680 000	-	-	985 754	492 761	88 486	Yes
Museum Subsidy	KZN Arts and Culture	-	260 000	-	-	-	-	-	-	Yes
Library Grant	KZN Arts and Culture	-	2 835 000	-	-	260 904	1 044 151	613 706	916 239	Yes
LGSETA	LGSETA	30 904	27 151	28 957	-	-	-	-	-	Yes
Transport Grant	KZN Transport	1 596 500	-	-	-	-	-	-	1 462 500	Yes
Municipal Disaster Grant	KZN Cogta	-	-	17 950 000	-	-	-	-	16 921 751	Yes
Energy Efficiency and Demand Management Grant	Department of Mineral Resources and Energy	1 100 000	1 000 000	900 000	-	-	-	814 200	2 166 838	
		-	-	-	-	-	-	-	-	Yes
		32 856 404	21 065 151	32 169 957	7 447 000	20 660 904	23 137 370	13 632 834	33 001 284	

Note: The grants has been spent in accordance with conditions of individual grant, please refer to Grants and Subsidies note. This excludes allocations from the Equitable Share.