

**Nyandeni Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2017**

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## General Information

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|   |   |
|---|---|
| Legal form of entity                                | Municipality  |
| Nature of business and principal activities         | Nyandeni Local municipality is a South African Category 3 municipality as defined by the Municipal Structures Act No.117 of 1998. The Municipality's operations are governed by the Constitution, Municipal Finance Management Act 56 of 2003, The Municipal Structure's Act 117 of 1998, Municipal Systems Act 32 of 2000 and various legislation and regulations.   |
| The following is included in the scope of operation | The Nyandeni Local Municipality includes the following areas<br>Libode<br>Ngqeleni  |
| Full - time Councillors                             |   |
| Honourable Mayor                                    | M.D. Ngqondwana   |
| Speaker   | N.P. Matanda  |
| Chief Whip  | M.R. Mtobela  |
| EXCO Members  | Z. Mevana - Portfolio Head Budget & Treasury<br>M.P. Diniso - Portfolio Head Planning, Research and IGR<br>Z. Nondlevu - Portfolio Head Infrastructure Development<br>W. Ngaveli - Portfolio Head Community Services & Public Safety<br>T. Matika-Mncube - Portfolio Head Corporate Services<br>N. Thiyeka - Portfolio Head LED & Rural Development<br>M. Magxala - Mayors Office<br>P. Godongwana - Portfolio Head Human Settlement, Spatial Planning & Disaster Management<br>V.B. Zondani - Portfolio Head Special Programs Unit |
| Chairperson of Section 79 Committees                |   |
|   | N.P. Ntoza - Womens caucus<br>.N Jim - Members Interest<br>X.A. Diani - Public Participation & Petition<br>N Tyopo - Municipal Public Accounts Committee  |

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## General Information

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### Part-time Councillors

Z. Mchithakali  
N. Nonkothama  
P.P. Sineke  
T. Zweni  
P. Matinise  
N.P. Ntshoyi  
P. Madwantsi  
L. Mziba  
N. Mchithakali  
N. Gqelywa  
M. Mkrokrelwa  
P.N Tswina  
P. Gazula  
M. Sifici  
K.S. Mohlomi  
L. Tshotsho  
M.A. Makhetha  
Z. Matomela  
S.S. Nogumla  
V. Nomqonde  
Z. Mdingi  
N. Tshotsho  
M. Langa  
C.M. Kuzo  
Z. Bodoza  
Y Sitsheke  
M.T. Mkhosana  
Z. Mantantana  
N. Nonkonyana  
A. Nkunzi  
M.K. Tshatshelo  
T. Macingwane  
T.H. Mbiko  
M. Hoya  
J. Maqubela  
M. Ntanzi  
N.L. Vanda  
F.Mbodloyi  
X. Pakade  
N.N. Devete  
C. Nazo  
M. John  
M.C. Mbangiswana  
F.E. Rhozani  
B.C. Dobha

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## General Information

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|                             |   |
|-----------------------------|---|
| Terminated councillors      | N. Fodo (Deceased)<br>T.E. Kupelo (Deceased)<br>X. Nlloko (Deceased)<br>M.Q.H. Lumko (Expiry of term)<br>N.S. Ngangaza (Expiry of term)<br>M. Qoyo (Expiry of term)<br>M.B. Dambuza (Expiry of term)<br>Z. Hibane (Expiry of term)<br>N. Mahlangu (Expiry of term)<br>M. Dukiso (Expiry of term)<br>N.J.H Pato (Expiry of term)<br>N. Malindi (Expiry of term)<br>N.C. Gqetywa (Expiry of term)<br>E.S. Mkizwana (Expiry of term)<br>T. Nompetshehi (Expiry of term)<br>N.L. Gonyela (Expiry of term)<br>Z.W. Mamve (Expiry of term)<br>M. Magavu (Expiry of term)<br>R.Z. Matiwane (Expiry of term)<br>N. Nkwahla (Expiry of term)<br>M.Z. Nomandela (Expiry of term)<br>J.M. Klaas (Expiry of term)<br>N.L. Vanda (Expiry of term)<br>R.N. Dlutu (Expiry of term)<br>B. Mavumbongwe (Expiry of term)<br>N. Nuku (Expiry of term)<br>S. Mbiyozo (Expiry of term)<br>J. Mabuza (Expiry of term)<br>S. Qaqa ( Expiry of term)<br>T. Sokanyile (Expiry of term) |
| Grading of local authority  | 3   |
| Accounting Officer          | N Nomandela   |
| Chief Finance Officer (CFO) | B K Benxa   |
| Registered office           | BN Nomandela Drive<br>Libode<br>5160  |
| Postal address              | Private Bag X504<br>Libode<br>5160  |
| Bankers                     | First National Bank, Mthatha<br>Standard Bank, Mthatha  |
| Auditors                    | Office of the Auditor - General (Eastern Cape)  |
| Attorneys                   | J A Le Roux Attorneys<br>A S Zono & Associates<br>Sigqibo Maqambayi Attorneys   |

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Index

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

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|       |   |
|-------|---|
| COID  | Compensation for Occupational Injuries and Diseases |
| CRR   | Capital Replacement Reserve                         |
| DBSA  | Development Bank of South Africa                    |
| GRAP  | Generally Recognised Accounting Practice            |
| <br>  |   |
| HDF   | Housing Development Fund                            |
| IAS   | International Accounting Standards                  |
| IMFO  | Institute of Municipal Finance Officers             |
| IPSAS | International Public Sector Accounting Standards    |
| ME's  | Municipal Entities                                  |
| MEC   | Member of the Executive Council                     |
| MFMA  | Municipal Finance Management Act                    |
| MIG   | Municipal Infrastructure Grant (Previously CMIP)    |

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Officer's Responsibilities and Approval

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2018 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

The annual financial statements set out on pages 6 to 68, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2017 and were signed on its behalf by:

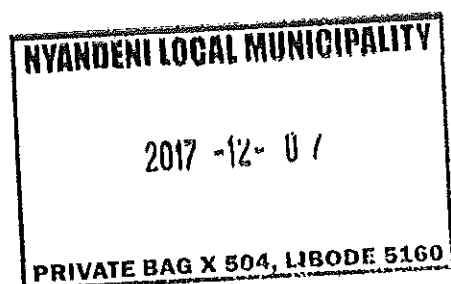
  
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N Nomandela  
Municipal Manager

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Statement of Financial Position as at 30 June 2017

| Figures in Rand                            | Note(s) | 2017               | 2016<br>Restated*  |
|--|---------|--------------------|--------------------|
| <b>Assets</b>                              |         |                    |                    |
| <b>Current Assets</b>                      |         |                    |                    |
| Inventories                                | 3       | 279,551            | 359,811            |
| VAT receivable                             | 4       | 4,402,345          | 5,139,985          |
| Consumer debtors                           | 5       | 1,702,551          | 1,397,874          |
| Other receivables                          | 45      | -                  | 227,164            |
| Receivables from non-exchange transactions | 6       | 49,805             | 21,600             |
| Cash and cash equivalents                  | 7       | 134,319,513        | 101,946,610        |
|  |         | <u>140,753,765</u> | <u>109,093,044</u> |
| <b>Non-Current Assets</b>                  |         |                    |                    |
| Investment property                        | 8       | 65,151,000         | 62,053,300         |
| Property, plant and equipment              | 9       | 384,539,788        | 343,171,372        |
| Intangible assets                          | 10      | 202,377            | 659,147            |
|  |         | <u>449,893,165</u> | <u>405,883,819</u> |
|  |         | 449,893,165        | 405,883,819        |
| <b>Current Assets</b>                      |         | 140,753,765        | 109,093,044        |
| <b>Total Assets</b>                        |         | <u>590,646,930</u> | <u>514,976,863</u> |
| <b>Liabilities</b>                         |         |                    |                    |
| <b>Current Liabilities</b>                 |         |                    |                    |
| Finance lease obligation                   | 12      | 332,975            | 453,144            |
| Payables from exchange transactions        | 13      | 14,093,222         | 11,071,910         |
| Employee benefit obligation                | 14      | 512,834            | 763,861            |
| Unspent conditional grants and receipts    | 15      | 216,881            | 2,617,675          |
| Retentions                                 | 17      | 6,822,840          | 5,209,269          |
| Income received in advance                 |         | 415,694            | 268,860            |
|  |         | <u>22,394,446</u>  | <u>20,384,719</u>  |
| <b>Non-Current Liabilities</b>             |         |                    |                    |
| Finance lease obligation                   | 12      | 234,982            | 623,537            |
| Employee benefit obligation                | 14      | 4,246,553          | 3,661,728          |
| Provisions                                 | 16      | 638,526            | 571,445            |
|  |         | <u>5,120,061</u>   | <u>4,856,710</u>   |
|  |         | 5,120,061          | 4,856,710          |
| <b>Current Liabilities</b>                 |         | 22,394,446         | 20,384,719         |
| <b>Total Liabilities</b>                   |         | <u>27,514,507</u>  | <u>25,241,429</u>  |
| <b>Assets</b>                              |         | 590,646,930        | 514,976,863        |
| <b>Liabilities</b>                         |         | (27,514,507)       | (25,241,429)       |
| <b>Net Assets</b>                          |         | <u>563,132,423</u> | <u>489,735,434</u> |
| <b>Reserves</b>                            |         |                    |                    |
| Revaluation reserve                        |         | 5,394,300          | 2,296,600          |
| Accumulated surplus                        |         | 557,738,123        | 487,438,834        |
| <b>Total Net Assets</b>                    |         | <u>563,132,423</u> | <u>489,735,434</u> |



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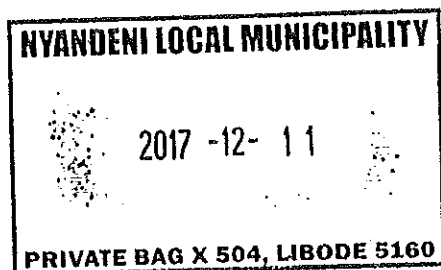
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# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Statement of Financial Performance

| Figures in Rand                                     | Note(s) | 2017                 | 2016<br>Restated*    |
|---|---------|----------------------|----------------------|
| <b>Revenue</b>                                      |         |                      |                      |
| <b>Revenue from exchange transactions</b>           |         |                      |                      |
| Service charges                                     | 18      | 202,400              | 199,794              |
| Rental of facilities and equipment                  |         | 178,208              | 61,441               |
| Interest received (trading)                         | 20      | 1,163,265            | 203,866              |
| Fees earned   |         | 49,996               | 43,788               |
| Commissions received                                |         | 178,459              | 173,962              |
| Recoveries  | 22      | 1,965,474            | -                    |
| Fair value gain on short term investments           |         | -                    | 266,930              |
| Other income  | 19      | 8,855,183            | 3,498,784            |
| Interest received - investment                      | 23      | 8,198,053            | 7,231,406            |
| <b>Total revenue from exchange transactions</b>     |         | <b>20,791,038</b>    | <b>11,679,971</b>    |
| <b>Revenue from non-exchange transactions</b>       |         |                      |                      |
| <b>Taxation revenue</b>                             |         |                      |                      |
| Property rates                                      | 24      | 5,725,994            | 5,604,890            |
| <b>Transfer revenue</b>                             |         |                      |                      |
| Government grants & subsidies                       | 25      | 290,556,793          | 304,790,325          |
| Fines, Penalties and Forfeits                       |         | 195,901              | 75,800               |
| Donations received                                  | 21      | -                    | 10,903,681           |
| <b>Total revenue from non-exchange transactions</b> |         | <b>296,478,688</b>   | <b>321,374,696</b>   |
|   |         | 20,791,038           | 11,679,971           |
|   |         | 296,478,688          | 321,374,696          |
| <b>Total revenue</b>                                | 22      | <b>317,269,726</b>   | <b>333,054,667</b>   |
| <b>Expenditure</b>                                  |         |                      |                      |
| Employee related costs                              | 29      | (113,638,116)        | (105,284,739)        |
| Remuneration of councillors                         | 28      | (18,411,388)         | (17,000,908)         |
| Depreciation and amortisation                       | 30      | (35,084,457)         | (31,807,464)         |
| Impairment loss/Reversal of impairment              | 50      | (1,604,127)          | (5,135,458)          |
| Finance costs                                       | 31      | (130,606)            | (160,647)            |
| Fair value loss on short term investments           |         | (2)                  | (192,559)            |
| Repairs and maintenance                             |         | (4,571,579)          | (4,964,487)          |
| General Expenses                                    | 26      | (69,874,193)         | (87,474,545)         |
| <b>Total expenditure</b>                            |         | <b>(243,314,468)</b> | <b>(252,020,807)</b> |
|   |         | -                    | -                    |
| Total revenue                                       |         | 317,269,726          | 333,054,667          |
| Total expenditure                                   |         | (243,314,468)        | (252,020,807)        |
| <b>Operating surplus</b>                            |         | <b>73,955,258</b>    | <b>81,033,860</b>    |
| Loss on disposal of assets and liabilities          | 9       | (3,655,968)          | (3,252,747)          |
| Fair value adjustment                               | 49      | 3,097,700            | -                    |
|   |         | <b>(558,268)</b>     | <b>(3,252,747)</b>   |
| Operating surplus/deficit                           |         | (558,268)            | (3,252,747)          |
| Surplus before taxation                             |         | 73,396,990           | 77,781,113           |
| Taxation  |         | -                    | -                    |
| <b>Surplus for the year</b>                         |         | <b>73,396,990</b>    | <b>77,781,113</b>    |



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# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Statement of Changes in Net Assets

| Figures in Rand                                       | Revaluation reserve | Accumulated surplus | Total net assets   |
|---|---------------------|---------------------|--------------------|
| Opening balance as previously reported                | 2,296,600           | 407,314,982         | 409,611,582        |
| Adjustments   |                     |                     |                    |
| Correction of errors                                  | -                   | 2,342,739           | 2,342,739          |
| <b>Balance at 01 July 2015 as restated*</b>           | <b>2,296,600</b>    | <b>409,657,721</b>  | <b>411,954,321</b> |
| Changes in net assets                                 |                     |                     |                    |
| Surplus for the year                                  | -                   | 77,781,113          | 77,781,113         |
| Total changes   | -                   | 77,781,113          | 77,781,113         |
| <b>Restated* Balance at 01 July 2016</b>              | <b>2,296,600</b>    | <b>487,438,833</b>  | <b>489,735,433</b> |
| Changes in net assets                                 |                     |                     |                    |
| Revaluation of Investment property                    | 3,097,700           | -                   | 3,097,700          |
| Net income (losses) recognised directly in net assets | 3,097,700           | -                   | 3,097,700          |
| Surplus for the year                                  | -                   | 70,299,290          | 70,299,290         |
| Total recognised income and expenses for the year     | 3,097,700           | 70,299,290          | 73,396,990         |
| Total changes   | 3,097,700           | 70,299,290          | 73,396,990         |
| <b>Balance at 30 June 2017</b>                        | <b>5,394,300</b>    | <b>557,738,123</b>  | <b>563,132,423</b> |

**NYANDENI LOCAL MUNICIPALITY**



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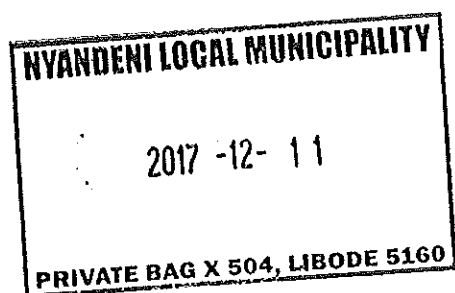
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# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Cash Flow Statement

| Figures in Rand   | Note(s) | 2017                 | 2016<br>Restated*    |
|---|---------|----------------------|----------------------|
| <b>Cash flows from operating activities</b>                 |         |                      |                      |
| <b>Receipts</b>   |         |                      |                      |
| Taxation  |         | 7,623,279            | 5,604,890            |
| Grants  |         | 287,939,118          | 304,790,325          |
| Interest income   |         | 8,198,053            | 7,231,406            |
| Other receipts  |         | 6,725,575            | 4,307,817            |
|   |         | <u>310,486,025</u>   | <u>321,934,438</u>   |
| <b>Payments</b>   |         |                      |                      |
| Employee costs  |         | (129,968,795)        | (122,285,648)        |
| Suppliers   |         | (69,844,071)         | (92,868,824)         |
| Finance costs   |         | (130,606)            | (5,321)              |
|   |         | <u>(199,943,472)</u> | <u>(215,159,793)</u> |
| Total receipts  |         | 310,486,025          | 321,934,438          |
| Total payments  |         | (199,943,472)        | (215,159,793)        |
| <b>Net cash flows from operating activities</b>             | 33      | <u>110,542,553</u>   | <u>106,774,645</u>   |
| <b>Cash flows from investing activities</b>                 |         |                      |                      |
| Purchase of property, plant and equipment                   | 9       | (36,670,385)         | (57,054,021)         |
| Movement on disposal of property, plant and equipment       | 9       | 993,706              | -                    |
| Purchase of intangible assets                               | 10      | (63,680)             | (180,000)            |
| Movement in Work-in Progress                                | 10      | (39,110,575)         | (14,324,697)         |
|   |         | <u>(74,850,934)</u>  | <u>(71,558,718)</u>  |
| <b>Cash flows from financing activities</b>                 |         |                      |                      |
| Movement in Income received in advance                      |         | 146,835              | 2,150                |
| Finance lease payments                                      |         | (508,724)            | (578,438)            |
| Movement in Retention                                       |         | (2,956,827)          | 1,612,730            |
|   |         | <u>(3,318,716)</u>   | <u>1,036,442</u>     |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |         | <u>32,372,903</u>    | <u>36,252,369</u>    |
| Cash and cash equivalents at the beginning of the year      |         | 101,946,610          | 65,694,241           |
| <b>Cash and cash equivalents at the end of the year</b>     | 7       | <u>134,319,513</u>   | <u>101,946,610</u>   |



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# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## 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                                     |                      |                     |                      |                                    |  |           |
| <b>Statement of Financial Performance</b>           |                      |                     |                      |                                    |  |           |
| <b>Revenue</b>                                      |                      |                     |                      |                                    |  |           |
| <b>Revenue from exchange transactions</b>           |                      |                     |                      |                                    |  |           |
| Service charges                                     | 244,559              | -                   | 244,559              | 202,400                            | (42,159)                                   |           |
| Rental of facilities and equipment                  | 185,394              | 73,182              | 258,576              | 178,208                            | (80,368)                                   |           |
| Interest received (trading)                         | -                    | 1,163,265           | 1,163,265            | 1,163,265                          | -  |           |
| Fees earned   | 101,124              | -                   | 101,124              | 49,996                             | (51,128)                                   |           |
| Commissions received                                | 224,720              | -                   | 224,720              | 178,459                            | (46,261)                                   |           |
| Recoveries  | -                    | -                   | -                    | 1,965,474                          | 1,965,474                                  |           |
| Other income  | 47,761,914           | 35,280,018          | 83,041,932           | 8,855,183                          | (74,186,749)                               |           |
| Interest received - investment                      | 5,618,000            | 2,560,968           | 8,178,968            | 8,198,053                          | 19,085                                     |           |
| <b>Total revenue from exchange transactions</b>     | <b>54,135,711</b>    | <b>39,077,433</b>   | <b>93,213,144</b>    | <b>20,791,038</b>                  | <b>(72,422,106)</b>                        |           |
| <b>Revenue from non-exchange transactions</b>       |                      |                     |                      |                                    |  |           |
| <b>Taxation revenue</b>                             |                      |                     |                      |                                    |  |           |
| Property rates                                      | 7,632,000            | (953,000)           | 6,679,000            | 5,725,994                          | (953,006)                                  |           |
| <b>Transfer revenue</b>                             |                      |                     |                      |                                    |  |           |
| Government grants & subsidies                       | 284,906,000          | 5,867,675           | 290,773,675          | 290,556,793                        | (216,882)                                  |           |
| Traffic fines                                       | 56,180               | -                   | 56,180               | 195,901                            | 139,721                                    |           |
| <b>Total revenue from non-exchange transactions</b> | <b>292,594,180</b>   | <b>4,914,675</b>    | <b>297,508,855</b>   | <b>296,478,688</b>                 | <b>(1,030,167)</b>                         |           |
| 'Total revenue from exchange transactions'          | 54,135,711           | 39,077,433          | 93,213,144           | 20,791,038                         | (72,422,106)                               |           |
| 'Total revenue from non-exchange transactions'      | 292,594,180          | 4,914,675           | 297,508,855          | 296,478,688                        | (1,030,167)                                |           |
| <b>Total revenue</b>                                | <b>346,729,891</b>   | <b>43,992,108</b>   | <b>390,721,999</b>   | <b>317,269,726</b>                 | <b>(73,452,273)</b>                        |           |
| <b>Expenditure</b>                                  |                      |                     |                      |                                    |  |           |
| Personnel   | (116,929,453)        | -                   | (116,929,453)        | (113,638,116)                      | 3,291,337                                  |           |
| Remuneration of councillors                         | (19,455,545)         | -                   | (19,455,545)         | (18,411,388)                       | 1,044,157                                  |           |
| Depreciation and amortisation                       | (33,752,534)         | -                   | (33,752,534)         | (35,084,457)                       | (1,331,923)                                |           |
| Impairment loss/ Reversal of impairments            | (7,000,000)          | -                   | (7,000,000)          | (1,604,127)                        | 5,395,873                                  |           |
| Finance costs                                       | (117,087)            | 47,617              | (69,470)             | (130,606)                          | (61,136)                                   |           |
| Fair value loss on investments                      | -                    | -                   | -                    | (2)                                | (2)  |           |
| Repairs and maintenance                             | (20,506,839)         | (8,071,170)         | (28,578,009)         | (4,571,579)                        | 24,006,430                                 |           |
| General Expenses                                    | (87,553,485)         | (16,010,135)        | (103,563,620)        | (69,874,193)                       | 33,689,427                                 |           |
| <b>Total expenditure</b>                            | <b>(285,314,943)</b> | <b>(24,033,688)</b> | <b>(309,348,631)</b> | <b>(243,314,468)</b>               | <b>66,034,163</b>                          |           |
|   | 346,729,891          | 43,992,108          | 390,721,999          | 317,269,726                        | (73,452,273)                               |           |
|   | (285,314,943)        | (24,033,688)        | (309,348,631)        | (243,314,468)                      | 66,034,163                                 |           |
| <b>Operating surplus</b>                            | <b>61,414,948</b>    | <b>19,958,420</b>   | <b>81,373,368</b>    | <b>73,955,258</b>                  | <b>(7,418,110)</b>                         |           |
| Loss on disposal of assets and liabilities          | -                    | -                   | -                    | (3,655,968)                        | (3,655,968)                                |           |
|   |                      | 19,958,420          | 81,373,368           | 73,955,258                         | (7,418,110)                                |           |

**NYANDENI LOCAL MUNICIPALITY**

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# Nyandeni Local Municipality

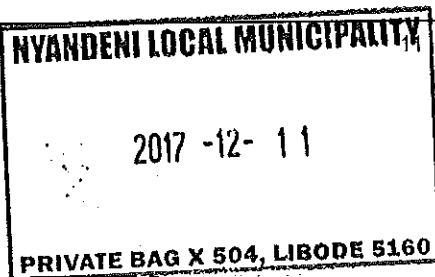
Annual Financial Statements for the year ended 30 June 2017

## 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   |                 |             |              |                                    |  |           |
| Surplus before taxation   | 61,414,948      | 19,958,420  | 81,373,368   | 70,299,290                         | (11,074,078)                               |           |
| Deficit before taxation   | 61,414,948      | 19,958,420  | 81,373,368   | 70,299,290                         | (11,074,078)                               |           |
| Taxation  | -               | -           | -            | -                                  | -  |           |
| Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement | 61,414,948      | 19,958,420  | 81,373,368   | 70,299,290                         | (11,074,078)                               |           |

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# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## 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  |                    |                   |                    |                                    |  |           |
| <b>Statement of Financial Position</b>                         |                    |                   |                    |                                    |  |           |
| <b>Assets</b>  |                    |                   |                    |                                    |  |           |
| <b>Current Assets</b>  |                    |                   |                    |                                    |  |           |
| Inventories  | 251,593            | -                 | 251,593            | 279,551                            | 27,958                                     |           |
| Receivables from non-exchange transactions                     | 56,180             | -                 | 56,180             | 49,805                             | (6,375)                                    |           |
| VAT receivable   | 4,761,053          | -                 | 4,761,053          | 4,402,345                          | (358,708)                                  |           |
| Consumer debtors   | 4,921,483          | -                 | 4,921,483          | 1,702,551                          | (3,218,932)                                |           |
| Cash and cash equivalents                                      | 65,694,226         | -                 | 65,694,226         | 134,319,513                        | 68,625,287                                 |           |
|  | <b>75,684,535</b>  | <b>-</b>          | <b>75,684,535</b>  | <b>140,753,765</b>                 | <b>65,069,230</b>                          |           |
| <b>Non-Current Assets</b>                                      |                    |                   |                    |                                    |  |           |
| Investment property  | 61,683,100         | -                 | 61,683,100         | 65,151,000                         | 3,467,900                                  |           |
| Property, plant and equipment                                  | 353,794,287        | 17,789,043        | 371,583,330        | 384,539,788                        | 12,956,458                                 |           |
| Intangible assets  | 963,923            | (68,776)          | 895,147            | 202,377                            | (692,770)                                  |           |
|  | <b>416,441,310</b> | <b>17,720,267</b> | <b>434,161,577</b> | <b>449,893,165</b>                 | <b>15,731,588</b>                          |           |
| Non-Current Assets   | 75,684,535         | -                 | 75,684,535         | 140,753,765                        | 65,069,230                                 |           |
| Current Assets   | 416,441,310        | 17,720,267        | 434,161,577        | 449,893,165                        | 15,731,588                                 |           |
| <b>Total Assets</b>  | <b>492,125,845</b> | <b>17,720,267</b> | <b>509,846,112</b> | <b>590,646,930</b>                 | <b>80,800,818</b>                          |           |
| <b>Liabilities</b>   |                    |                   |                    |                                    |  |           |
| <b>Current Liabilities</b>                                     |                    |                   |                    |                                    |  |           |
| Finance lease obligation                                       | 711,084            | -                 | 711,084            | 332,975                            | (378,109)                                  |           |
| Payables from exchange transactions                            | 16,684,531         | -                 | 16,684,531         | 14,093,222                         | (2,591,309)                                |           |
| Employee benefit obligation                                    | -                  | -                 | -                  | 512,834                            | 512,834                                    |           |
| Unspent conditional grants and receipts                        | -                  | -                 | -                  | 216,881                            | 216,881                                    |           |
| Retentions   | -                  | -                 | -                  | 6,822,840                          | 6,822,840                                  |           |
| Income received in advance                                     | -                  | -                 | -                  | 415,694                            | 415,694                                    |           |
|  | <b>17,395,615</b>  | <b>-</b>          | <b>17,395,615</b>  | <b>22,394,446</b>                  | <b>4,998,831</b>                           |           |
| <b>Non-Current Liabilities</b>                                 |                    |                   |                    |                                    |  |           |
| Finance lease obligation                                       | -                  | -                 | -                  | 234,982                            | 234,982                                    |           |
| Employee benefit obligation                                    | 4,220,560          | -                 | 4,220,560          | 4,246,553                          | 25,993                                     |           |
| Provisions   | 249,393            | -                 | 249,393            | 638,526                            | 389,133                                    |           |
|  | <b>4,469,953</b>   | <b>-</b>          | <b>4,469,953</b>   | <b>5,120,061</b>                   | <b>650,108</b>                             |           |
|  | 17,395,615         | -                 | 17,395,615         | 22,394,446                         | 4,998,831                                  |           |
|  | 4,469,953          | -                 | 4,469,953          | 5,120,061                          | 650,108                                    |           |
| <b>Total Liabilities</b>                                       | <b>21,865,568</b>  | <b>-</b>          | <b>21,865,568</b>  | <b>27,514,507</b>                  | <b>5,648,939</b>                           |           |
| Assets   | 492,125,845        | 17,720,267        | 509,846,112        | 590,646,930                        | 80,800,818                                 |           |
| Liabilities  | (21,865,568)       | -                 | (21,865,568)       | (27,514,507)                       | (5,648,939)                                |           |
| <b>Net Assets</b>  | <b>470,260,277</b> | <b>17,720,267</b> | <b>487,980,544</b> | <b>563,132,423</b>                 | <b>75,151,879</b>                          |           |
| <b>Net Assets</b>  |                    |                   |                    |                                    |  |           |
| <b>Net Assets Attributable to Owners of Controlling Entity</b> |                    |                   |                    |                                    |  |           |

# Nyandeni Local Municipality

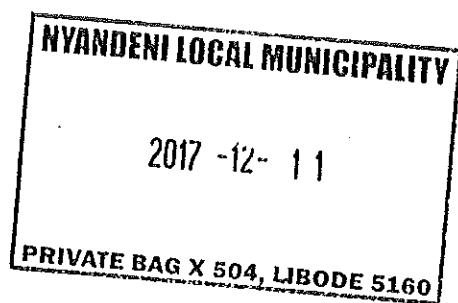
Annual Financial Statements for the year ended 30 June 2017

## 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         |                    |                   |                    |                                    |  |           |
| Reserves                |                    |                   |                    |                                    |  |           |
| Revaluation reserve     | -                  | -                 | -                  | 5,394,300                          | 5,394,300                                  |           |
| Accumulated surplus     | -                  | -                 | -                  | 560,691,559                        | 560,691,559                                |           |
| <b>Total Net Assets</b> | <b>470,260,277</b> | <b>17,720,267</b> | <b>487,980,544</b> | <b>563,132,423</b>                 | <b>75,151,879</b>                          |           |

The material variances on the statement of comparison of budget and actual amounts are explained in note 44.



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# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

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

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

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

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

#### 1.1 Presentation currency

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

#### 1.2 Going concern assumption

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

#### 1.3 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:

##### Receivables/other financial assets

The municipality assesses its trade receivables, held to maturity investments 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 surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and 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.

##### Fair value estimation

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

The fair value of financial 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.

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.3 Significant Judgements and sources of estimation uncertainty (continued)

#### Impairment testing

The recoverable amounts of cash-generating and non-cash generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions 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, together with economic factors.

#### 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 16 - Provisions.

#### Effective Interest rate

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

#### 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.

### 1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

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

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

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

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



# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.4 Investment property (continued)

#### Fair value

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

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

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

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

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

### 1.5 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, it's deemed cost is the carrying amount of the asset(s) given up.

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

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

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

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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

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

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

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

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.

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

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

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

---

| Item                | Depreciation method | Average useful life |
|---------------------|---------------------|---------------------|
| Buildings           | Straight line       | 7 -34 years         |
| Plant and machinery | Straight line       | 5-50 years          |
| Motor vehicles      | Straight line       | 5 - 10 years        |
| Office equipment    | Straight line       | 2 - 10 years        |
| IT equipment        | Straight line       | 2 - 10 years        |
| Infrastructure      | Straight line       | 2 - 100 years       |
| Community           | Straight line       | 5 - 30 years        |
| Access Roads        | Straight line       | 2 - 100 years       |

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

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

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

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

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

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

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

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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

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.

### 1.6 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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

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

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

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no 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.

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

Internally generated goodwill is not recognised as an intangible asset.

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

| Item | Useful life |
|------|-------------|
|------|-------------|

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# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.6 Intangible assets (continued)

Computer software, other

5 years

### 1.7 Financial Instruments

#### Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Regular way purchases of financial assets are accounted for at trade date.

#### Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit include dividends or similar distributions and interest.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends or similar distributions received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.7 Financial Instruments (continued)

#### Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

#### Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

#### Payables from exchange transactions

Trade payables are initially measured at fair value.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.7 Financial instruments (continued)

#### Derecognition

##### Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

##### Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

### 1.8 Leases

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

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

#### Finance leases - lessee

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

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

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

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

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.8 Leases (continued)

#### 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.

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.

### 1.9 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 formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

### 1.10 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

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.

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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

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

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

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

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

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:

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

#### Identification

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

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

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

#### Value in use

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

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

#### Basis for estimates of future cash flows

In measuring value in use the municipality:

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



# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.10 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.

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.10 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.

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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

#### Reversal of Impairment loss

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

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

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

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

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

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

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

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

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

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

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

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

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

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

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

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

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

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

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

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# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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

Useful life is either:

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

#### Identification

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

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

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

#### Value in use

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

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

##### 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 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.

# Nyandeni Local Municipality

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

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

#### Reversal of an impairment loss

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

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

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

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

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

### 1.12 Employee benefits

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

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

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

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

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

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

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

# Nyandeni Local Municipality

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### 1.12 Employee benefits (continued)

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

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

#### Short-term employee benefits

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

Short-term employee benefits include items such as:

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

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

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

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

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.12 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

### 1.13 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.13 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a 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 35.

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

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

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

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

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

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

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

### 1.14 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.



# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.14 Commitments (continued)

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

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

### 1.15 Revenue from exchange transactions

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

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

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

#### Measurement

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

#### Sale of goods

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

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

#### Rendering of services

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

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

When 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 .

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.15 Revenue from exchange transactions (continued)

#### Interest, royalties and dividends

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

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

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

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

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

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

### 1.16 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

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

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

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

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# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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

#### Recognition

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

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

#### Measurement

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

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

#### Taxes

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

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

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

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

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

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

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

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

#### Transfers

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

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

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

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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

#### Fines

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

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

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

#### Services In-kind

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

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

### 1.17 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

### 1.18 Investment Income

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

### 1.19 Comparative figures

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

When the presentation or classification in financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

### 1.20 Unauthorised expenditure

Unauthorised expenditure means:

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

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

### 1.21 Fruitless and wasteful expenditure

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

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

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.22 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 excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.23 Budget information

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

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

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

The approved budget covers the fiscal period from 2016-07-01 to 2017-06-30.

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

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

### 1.24 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

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

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

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### 1.25 Events after reporting date

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

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

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

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.

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand

2017

2016  
Restated\*

### 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:<br>Years beginning on or after | Expected impact: |
|--|--|------------------|
| • GRAP 108: Statutory Receivables  | 01 April 2016                                  |                  |
| • GRAP 32: Service Concession Arrangements: Grantor  | 01 April 2016                                  |                  |
| • IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset | 01 April 2016                                  |                  |

#### 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 2017 or later periods:

| Standard/ Interpretation:   | Effective date:<br>Years beginning on or after | Expected impact:                         |
|---|--|--|
| • GRAP 34: Separate Financial Statements  | 01 April 2019                                  | The impact of the is not material.       |
| • GRAP 35: Consolidated Financial Statements  | 01 April 2019                                  | Unlikely there will be a material impact |
| • GRAP 36: Investments in Associates and Joint Ventures                                     | 01 April 2019                                  | Unlikely there will be a material impact |
| • GRAP 37: Joint Arrangements   | 01 April 2019                                  | Unlikely there will be a material impact |
| • GRAP 38: Disclosure of Interests in Other Entities  | 01 April 2019                                  | Unlikely there will be a material impact |
| • GRAP 110: Living and Non-living Resources   | 01 April 2019                                  | Unlikely there will be a material impact |
| • GRAP 12 (as amended 2016): Inventories  | 01 April 2018                                  | Unlikely there will be a material impact |
| • GRAP 27 (as amended 2016): Agriculture  | 01 April 2018                                  | Unlikely there will be a material impact |
| • GRAP 31 (as amended 2016): Intangible Assets  | 01 April 2018                                  | Unlikely there will be a material impact |
| • GRAP 103 (as amended 2016): Heritage Assets   | 01 April 2018                                  | Unlikely there will be a material impact |
| • GRAP 110 (as amended 2016): Living and Non-living Resources                               | 01 April 2018                                  | Unlikely there will be a material impact |
| • IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land | 01 April 2019                                  | Unlikely there will be a material impact |
| • Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities      | 01 April 2018                                  | Unlikely there will be a material impact |
| • GRAP 20: Related parties  | 01 April 2017                                  | Unlikely there will be a material impact |
| • GRAP 26 (as amended 2016): Impairment of cash-generating assets                           | 01 April 2018                                  | Unlikely there will be a material impact |
| • GRAP 109: Accounting by Principals and Agents   | 01 April 2017                                  | Unlikely there will be a material impact |
| • GRAP 21 (as amended 2016): Impairment of non-cash-generating assets                       | 01 April 2018                                  | Unlikely there will be a material impact |
| • GRAP 16 (as amended 2016): Investment Property  | 01 April 2018                                  | Unlikely there will be a material impact |

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

### 2. New standards and interpretations (continued)

- GRAP 106 (as amended 2016): Transfers of functions 01 April 2018 between entities not under common control

Unlikely there will be a material impact

### 3. Inventories

|                   |         |         |
|-------------------|---------|---------|
| Consumable stores | 279,551 | 359,811 |
|-------------------|---------|---------|

In the current financial year inventory to the value of R80 260 was written down to net realisable value due to the nature of the municipality's inventory which is mainly stationery items.

### 4. VAT receivable

|     |           |           |
|-----|-----------|-----------|
| VAT | 4,402,345 | 5,139,985 |
|-----|-----------|-----------|

These are monies due from SARS for VAT refunds claimed for April & June 2017 Vat periods, as well as invoices captured not yet paid and billing of debtors for services.

### 5. Consumer debtors

|                                       |                    |                     |
|---------------------------------------|--------------------|---------------------|
| <b>Gross balances</b>                 |                    |                     |
| Rates                                 | 10,400,460         | 12,238,720          |
| Refuse                                | 471,296            | 350,761             |
| Old Balances                          | 8,883              | 10,243              |
|                                       | <u>10,880,639</u>  | <u>12,599,724</u>   |
| <b>Less: Allowance for impairment</b> |                    |                     |
| Rates                                 | (8,744,651)        | (10,867,835)        |
| Refuse                                | (424,554)          | (323,772)           |
| Old Balances                          | (8,883)            | (10,243)            |
|                                       | <u>(9,178,088)</u> | <u>(11,201,850)</u> |
| <b>Net balance</b>                    |                    |                     |
| Rates                                 | 1,655,809          | 1,370,885           |
| Refuse                                | 46,742             | 26,989              |
|                                       | <u>1,702,551</u>   | <u>1,397,874</u>    |
| <b>Rates</b>                          |                    |                     |
| Current (0 -30 days)                  | 265,504            | 132,632             |
| 31 - 60 days                          | 130,164            | 129,674             |
| 61 - 90 days                          | 119,575            | 74,670              |
| 91 - 120 days                         | 115,659            | 122,341             |
| 121 - 365 days                        | 2,910,294          | 4,062,596           |
| > 365 days                            | 5,666,874          | 7,514,550           |
| Interest                              | 1,192,390          | 201,756             |
|                                       | <u>10,400,460</u>  | <u>12,238,219</u>   |

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

| Figures in Rand   | 2017               | 2016<br>Restated*   |
|---|--------------------|---------------------|
| <b>5. Consumer debtors (continued)</b>  |                    |                     |
| <b>Refuse</b>   |                    |                     |
| Current (0 -30 days)  | 35,201             | 52,113              |
| 31 - 60 days  | 16,349             | 15,770              |
| 61 - 90 days  | 15,722             | 8,993               |
| 91 - 120 days   | 15,532             | 12,480              |
| 121 - 365 days  | 73,870             | 60,078              |
| > 365 days  | 280,189            | 197,853             |
| Interest  | 34,434             | 3,473               |
|   | <u>471,297</u>     | <u>350,760</u>      |
| <b>Other (specify)</b>  |                    |                     |
| > 365 days  | 7,670              | 10,158              |
| Interest  | 1,213              | 84                  |
|   | <u>8,883</u>       | <u>10,242</u>       |
| <b>Reconciliation of allowance for Impairment</b>   |                    |                     |
| Balance at beginning of the year  | (11,201,849)       | (12,766,406)        |
| Contributions to allowance  | 1,965,474          | (5,107,253)         |
| Debt impairment written off against allowance   | 58,287             | 6,671,809           |
|   | <u>(9,178,088)</u> | <u>(11,201,850)</u> |
| <p>Consumer debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of Receivables from exchange transactions on initial recognition is not deemed necessary. The current year movement of allowance for impairment decreased due to a decrease in the current year debtors as a result of an increase in collection levels.</p> |                    |                     |
| <b>6. Receivables from non-exchange transactions</b>  |                    |                     |
| <p>Traffic fines are recognised on accrual basis and discounted based on the history of collection in the previous years. Traffic fines are recognised on accrual basis for the first time and the comparative figures have been adjusted as per requirements of GRAP 108.</p>  |                    |                     |
| <b>Gross balances</b>   |                    |                     |
| Traffic fines   | <u>222,756</u>     | <u>49,805</u>       |
| <b>Less: Impairment of traffic fines</b>  |                    |                     |
| Impairment of traffic fines   | <u>172,951</u>     | <u>28,205</u>       |
| <b>Net balances</b>   |                    |                     |
| Traffic fines   | <u>49,805</u>      | <u>21,600</u>       |
| <b>7. Cash and cash equivalents</b>   |                    |                     |
| Cash and cash equivalents consist of:   |                    |                     |
| Cash on hand  | 15                 | 15                  |
| Bank balances   | 42,833,082         | 36,027,583          |
| Short-term deposits   | 91,486,416         | 65,919,012          |
|   | <u>134,319,513</u> | <u>101,946,610</u>  |



# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

| Figures in Rand  | 2017                    |                    |                   | 2016<br>Restated*  |                    |                   |
|--|-------------------------|--------------------|-------------------|--------------------|--------------------|-------------------|
| <b>7. Cash and cash equivalents (continued)</b>                |                         |                    |                   |                    |                    |                   |
| The municipality had the following bank accounts               |                         |                    |                   |                    |                    |                   |
| Account number / description                                   | Bank statement balances |                    |                   | Cash book balances |                    |                   |
|  | 30 June 2017            | 30 June 2016       | 30 June 2015      | 30 June 2017       | 30 June 2016       | 30 June 2015      |
| First National bank - Current Account no. 62152951614          | 26,872,036              | 24,074,464         | 21,501,533        | 27,027,852         | 24,125,087         | 12,767,389        |
| Standard bank - Current Account no. 80847978                   | 15,831,995              | 11,920,377         | 5,334,685         | 15,832,295         | 11,920,677         | 5,334,985         |
| Petty Cas/Underbanking   | -                       | -                  | -                 | (27,065)           | (18,166)           | 1,050             |
| Standard bank - Call Deposit - 388655305-403                   | 329,780                 | 316,870            | 305,418           | 329,780            | 316,870            | 305,418           |
| Standard Bank- Call Account- 388680237-001                     | 100,118                 | 95,185             | 91,069            | 100,118            | 95,185             | 91,069            |
| Standard Bank-Tiered Rates 388680172-002                       | 3,419                   | 3,335              | 3,262             | 3,419              | 3,335              | 3,262             |
| Standard Bank - 32 Day Call 388655305-004                      | 1,131,985               | 1,060,435          | 999,588           | 1,132,002          | 1,060,435          | 999,588           |
| Standard Bank- Revolving Fund- 388655305-002                   | 266,162                 | 255,743            | 256,500           | 266,162            | 255,743            | 256,500           |
| Standard Bank - Stanlib - 54781067                             | 33,815                  | 33,175             | 30,809            | 33,815             | 33,175             | 30,809            |
| Standard Bank-Stanlib - IP005728                               | 1,445,589               | 1,445,589          | 1,362,013         | 1,445,589          | 1,445,589          | 1,362,013         |
| Standard Bank- Stanlib- IP005439                               | 3,226,826               | 3,226,826          | 3,036,472         | 3,226,826          | 3,226,826          | 3,036,472         |
| Standard Bank- 548736855-001                                   | 825,625                 | 789,756            | 758,636           | 825,625            | 789,756            | 758,636           |
| First National Bank-32 Day Interest- 72399019737               | 17,023                  | 16,349             | 15,792            | 17,023             | 16,349             | 15,792            |
| First National Bank-Investment Acc-74187331349                 | 20,470,755              | 19,103,046         | 17,992,666        | 20,470,755         | 19,103,046         | 17,992,666        |
| First National Bank- Investment Acc-74182161238                | 35,567,614              | 21,261,053         | 9,478,014         | 35,567,614         | 21,261,053         | 9,478,014         |
| First National Bank-Call Acc - 62159915704 MIG Call            | 13,421,945              | 9,508,137          | 8,224,199         | 13,421,945         | 9,508,137          | 8,224,199         |
| First National Bank-Call Account-62159915853                   | 1,455,268               | 1,387,889          | 720,007           | 1,455,268          | 1,387,889          | 720,007           |
| First National Bank- Call Account no-621599121751              | 3,510,696               | 1,738,213          | 1,109,606         | 3,510,696          | 1,738,213          | 1,109,606         |
| First national Bank-Call Acc no.62159915340- LGSETA            | 69,188                  | 67,314             | 65,874            | 69,188             | 67,314             | 65,874            |
| First National Bank-Call Acc no.62159922551-Property Valuation | 169,605                 | 163,291            | 158,128           | 169,605            | 163,291            | 158,128           |
| First National Bank-Call Acc no. 62396357298-EPWP              | 1,444,192               | 512,433            | 534,927           | 1,444,192          | 512,433            | 534,927           |
| First National Bank-Call Acc no- 62396356539- INEG             | 5,983,390               | 3,059,490          | 2,457,837         | 5,983,390          | 3,059,490          | 2,457,837         |
| First National Bank-Call Acc no- 62582905710                   | 1,978,670               | 1,874,883          | -                 | 1,978,670          | 1,874,883          | -                 |
| First National Bank-Call Acc no. 74634166463                   | 34,749                  | -                  | -                 | 34,749             | -                  | -                 |
| <b>Total</b>   | <b>134,190,445</b>      | <b>101,913,853</b> | <b>74,437,035</b> | <b>134,319,513</b> | <b>101,946,610</b> | <b>65,704,241</b> |

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand 2017 2016  
Restated\*

### 8. Investment property

|                     | 2017             |   |                | 2016             |   |                |
|---------------------|------------------|---|----------------|------------------|---|----------------|
|                     | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Investment property | 65,151,000       | -   | 65,151,000     | 62,053,300       | -   | 62,053,300     |

#### Reconciliation of investment property - 2017

|                     | Opening balance | Fair value adjustments | Total      |
|---------------------|-----------------|------------------------|------------|
| Investment property | 62,053,300      | 3,097,700              | 65,151,000 |

#### Reconciliation of Investment property - 2016

|                     | Opening balance | Additions | Total      |
|---------------------|-----------------|-----------|------------|
| Investment property | 61,683,100      | 370,200   | 62,053,300 |

#### Details of property

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.

#### Details of valuation

The effective date of the revaluations was 30 June 2017. Revaluations were performed by an independent valuer, Mrs P.J Lindstrom, Registered Property Valuer of Penny Lindstrom Valuations. Penny Lindstrom Valuations are not connected to the municipality and have recent experience in location and category of the investment property being valued.

All properties registered in the name of the Municipality were valued and categorized. After careful consideration, the Valuer decided to increase the value of the investment properties by 5% as property values have not risen much in any of the smaller former Transkei Towns during the specified period. Suitable values were placed on each property based on the methodology identified for each category. Fair Value was established for investment properties.

## Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements

Figures in Rand 2017 2016  
Restated\*

#### 9. Property, plant and equipment

|                     | 2017               |   |                    | 2016               |   |                    |
|---------------------|--------------------|---|--------------------|--------------------|---|--------------------|
|                     | Cost / Valuation   | Accumulated depreciation and accumulated impairment | Carrying value     | Cost / Valuation   | Accumulated depreciation and accumulated impairment | Carrying value     |
| Buildings           | 31,949,963         | (4,848,147)   | 27,101,816         | 25,090,372         | (3,967,080)   | 21,123,292         |
| Plant and machinery | 11,403,807         | (4,937,655)   | 6,466,152          | 10,803,376         | (4,179,648)   | 6,623,728          |
| Motor vehicles      | 15,714,102         | (6,320,158)   | 9,393,944          | 15,295,760         | (6,062,278)   | 9,233,482          |
| Office equipment    | 4,581,306          | (2,948,880)   | 1,632,426          | 4,409,417          | (2,439,565)   | 1,969,852          |
| IT equipment        | 5,320,233          | (3,024,416)   | 2,295,817          | 4,858,300          | (2,213,262)   | 2,645,038          |
| Infrastructure      | 506,881,769        | (180,301,489)                                       | 326,580,280        | 448,193,048        | (158,877,276)                                       | 289,315,772        |
| Community           | 12,754,994         | (2,322,177)   | 10,432,817         | 12,496,205         | (1,317,379)   | 11,178,826         |
| Finance lease asset | 3,087,117          | (2,450,581)   | 636,536            | 3,087,117          | (2,005,735)   | 1,081,382          |
| <b>Total</b>        | <b>591,693,291</b> | <b>(207,153,503)</b>                                | <b>384,539,788</b> | <b>524,233,595</b> | <b>(181,062,223)</b>                                | <b>343,171,372</b> |

**Nyandeni Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Notes to the Annual Financial Statements**

Figures in Rand

**9. Property, plant and equipment (continued)**

**Reconciliation of property, plant and equipment - 2017**

|                      | Opening balance    | Additions         | Disposals          | Other changes, movements | Depreciation        | Total              |
|----------------------|--------------------|-------------------|--------------------|--------------------------|---------------------|--------------------|
| Buildings            | 21,123,292         | 4,521,194         | -                  | 2,338,398                | (881,068)           | 27,101,816         |
| Plant and machinery  | 6,623,728          | 824,371           | (121,355)          | -                        | (860,592)           | 6,466,152          |
| Motor vehicles       | 9,233,482          | 2,491,134         | (659,461)          | -                        | (1,671,211)         | 9,393,944          |
| Office equipment     | 1,969,852          | 178,369           | (1,566)            | -                        | (514,229)           | 1,632,426          |
| IT equipment         | 2,845,038          | 540,167           | (49,362)           | -                        | (840,026)           | 2,295,817          |
| Infrastructure       | 289,315,772        | 56,531,721        | (2,817,930)        | 11,895,145               | (28,344,554)        | 326,580,280        |
| Community            | 11,178,826         | 258,789           | -                  | -                        | (1,004,798)         | 10,432,817         |
| Finance lease assets | 1,081,382          | -                 | -                  | -                        | (444,846)           | 636,536            |
|                      | <b>343,171,372</b> | <b>65,345,745</b> | <b>(3,649,674)</b> | <b>14,233,543</b>        | <b>(34,561,324)</b> | <b>384,539,788</b> |

**Reconciliation of property, plant and equipment - 2016**

|                     | Opening balance    | Additions         | Disposals          | Other changes, movements | Depreciation        | Total              |
|---------------------|--------------------|-------------------|--------------------|--------------------------|---------------------|--------------------|
| Buildings           | 20,951,462         | 3,345,219         | (2,384,105)        | (99,000)                 | (690,284)           | 21,123,292         |
| Plant and machinery | 4,088,014          | 4,069,134         | (781,162)          | -                        | (752,258)           | 6,623,728          |
| Motor vehicles      | 8,243,242          | 1,834,771         | 781,162            | -                        | (1,625,693)         | 9,233,482          |
| Office equipment    | 2,169,480          | 384,546           | -                  | -                        | (584,174)           | 1,969,852          |
| IT equipment        | 2,006,788          | 1,307,270         | (20,402)           | -                        | (648,618)           | 2,645,038          |
| Infrastructure      | 251,866,940        | 50,377,385        | (313,297)          | 13,388,646               | (26,003,902)        | 289,315,772        |
| Community           | 2,903,031          | 9,239,218         | -                  | (440,336)                | (523,087)           | 11,178,826         |
| Finance lease asset | 933,343            | 671,446           | -                  | -                        | (523,407)           | 1,081,382          |
|                     | <b>293,162,300</b> | <b>71,228,989</b> | <b>(2,717,804)</b> | <b>12,849,310</b>        | <b>(31,351,423)</b> | <b>343,171,372</b> |

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016<br>Restated* |
|-----------------|------|-------------------|
|-----------------|------|-------------------|

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

#### Reconciliation of Work-in-Progress 2017

|                                | Included within<br>Infrastructure | Included within<br>Buildings | Total             |
|--------------------------------|-----------------------------------|------------------------------|-------------------|
| Opening balance                | 45,133,171                        | -                            | 45,133,171        |
| Additions/capital expenditure  | 36,812,932                        | 2,297,643                    | 39,110,575        |
| Retentions                     | 3,842,343                         | 40,755                       | 3,883,098         |
| Transferred to completed items | (28,760,160)                      | -                            | (28,760,160)      |
|                                | <u>57,028,286</u>                 | <u>2,338,398</u>             | <u>59,366,684</u> |

#### Reconciliation of Work-in-Progress 2016

|                                | Included within<br>Infrastructure | Included within<br>Community | Included within<br>Buildings | Total             |
|--------------------------------|-----------------------------------|------------------------------|------------------------------|-------------------|
| Opening balance                | 31,744,525                        | 440,336                      | 99,000                       | 32,283,861        |
| Additions/capital expenditure  | 28,543,529                        | -                            | -                            | 28,543,529        |
| Retentions                     | 1,808,987                         | -                            | -                            | 1,808,987         |
| Transferred to completed items | (16,963,870)                      | (440,336)                    | (99,000)                     | (17,503,206)      |
|                                | <u>45,133,171</u>                 | <u>-</u>                     | <u>-</u>                     | <u>45,133,171</u> |

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.

### 10. Intangible assets

|                   | 2017                |   |                | 2016                |   |                |
|-------------------|---------------------|---|----------------|---------------------|---|----------------|
|                   | Cost /<br>Valuation | Accumulated<br>amortisation<br>and<br>accumulated<br>impairment | Carrying value | Cost /<br>Valuation | Accumulated<br>amortisation<br>and<br>accumulated<br>impairment | Carrying value |
| Computer software | 2,607,555           | (2,405,178)   | 202,377        | 2,543,875           | (1,884,728)   | 659,147        |

#### Reconciliation of intangible assets - 2017

|                   | Opening<br>balance | Additions | Amortisation | Total   |
|-------------------|--------------------|-----------|--------------|---------|
| Computer software | 659,147            | 63,680    | (520,450)    | 202,377 |

#### Reconciliation of intangible assets - 2016

|                   | Opening<br>balance | Additions | Amortisation | Total   |
|-------------------|--------------------|-----------|--------------|---------|
| Computer software | 963,922            | 180,000   | (484,775)    | 659,147 |

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand 2017 2016  
Restated\*

### 11. Change in accounting estimate

The management of municipality realised, during their annual assessment of useful lives and residual values, in the beginning of 2016-2017 financial period that the pattern of service potential derived from depreciable assets has changed from that in previous periods. These depreciable assets are currently depreciated using the straight line method over a useful life. As a result, management decided to change the remaining useful life of the depreciable assets. The following information relates to the depreciable assets. The effect of the change in useful life is the decrease in depreciation by R 781 954 in the current year and in the future years. Depreciation is calculated on a straight line basis hence the effect of change in accounting estimate is the same.

| Description                | 2017           | 2018          | 2019             | 2020             | Total       |
|----------------------------|----------------|---------------|------------------|------------------|-------------|
| Depreciation before change | 1,829,219      | 888,742       | -                | -                | 2,717,961   |
| Depreciation after change  | (1,047,505)    | (821,375)     | (748,968)        | (100,113)        | (2,717,961) |
|                            | <u>781,714</u> | <u>67,367</u> | <u>(748,968)</u> | <u>(100,113)</u> | <u>-</u>    |

### 12. Finance lease obligation

|   |                |                  |
|---|----------------|------------------|
| Minimum lease payments due                  |                |                  |
| - within one year                           | 395,439        | 655,194          |
| - in second to fifth year inclusive         | 276,637        | 663,887          |
|   | <u>672,076</u> | <u>1,319,081</u> |
| less: future finance charges                | (104,118)      | (216,654)        |
| Present value of minimum lease payments     | <u>567,958</u> | <u>1,102,427</u> |
| Present value of minimum lease payments due |                |                  |
| - within one year                           | 332,975        | 540,792          |
| - in second to fifth year inclusive         | 234,982        | 561,635          |
|   | <u>567,957</u> | <u>1,102,427</u> |
| Non-current liabilities                     | 234,982        | 561,635          |
| Current liabilities                         | 332,975        | 540,792          |
|   | <u>567,957</u> | <u>1,102,427</u> |

It is municipality policy to lease certain office equipment under finance leases.

The average lease term was 4.5 years and the average effective borrowing rate was 6.5% for 2016 (2016: 6.5%).

### 13. Payables from exchange transactions

|                     |                   |                   |
|---------------------|-------------------|-------------------|
| Trade payables      | 2,701,119         | 737,080           |
| Overtime provision  | 559,994           | 309,315           |
| Sundry suppliers    | 25,796            | 55,918            |
| Leave pay provision | 8,537,571         | 7,117,135         |
| Creditors accruals  | 45,562            | 1,038,874         |
| Bonus provision     | 2,223,180         | 1,813,588         |
|                     | <u>14,093,222</u> | <u>11,071,910</u> |

### 14. Employee benefit obligations

#### Defined benefit plan

#### Post retirement gratuity plan

The obligation is valued annually by the independent qualified actuaries.

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

| Figures in Rand   | 2017               | 2016<br>Restated*  |
|---|--------------------|--------------------|
| <b>14. Employee benefit obligations (continued)</b>   |                    |                    |
| The amounts recognised in the statement of financial position are as follows:   |                    |                    |
| Carrying value  |                    |                    |
| Present value of the defined benefit obligation-wholly unfunded   | (4,759,387)        | (4,425,589)        |
| Non-current liabilities   | (4,246,553)        | (3,661,728)        |
| Current liabilities   | (512,834)          | (763,861)          |
|   | <u>(4,759,387)</u> | <u>(4,425,589)</u> |
| Changes in the present value of the defined benefit obligation are as follows:  |                    |                    |
| Opening balance   | 4,198,335          | 3,396,136          |
| Net expense recognised in the statement of financial performance  | 333,798            | 802,199            |
|   | <u>4,532,133</u>   | <u>4,198,335</u>   |
| Net expense recognised in the statement of financial performance  |                    |                    |
| Current service cost  | 740,551            | 644,510            |
| Interest cost   | 345,932            | 272,501            |
| Actuarial (gains) losses  | (752,685)          | (114,812)          |
|   | <u>333,798</u>     | <u>802,199</u>     |
| Key assumptions used  |                    |                    |
| Assumptions used at the reporting date:   |                    |                    |
| Discount rates used   | 8.46 %             | 8.54 %             |
| <b>15. Unspent conditional grants and receipts</b>  |                    |                    |
| Unspent grants can mainly be attributed to projects that are work in progress on the relevant financial year-ends. The unspent Grants are cash-backed by term deposits. The Municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld. |                    |                    |
| Unspent conditional grants and receipts comprises of:   |                    |                    |
| Unspent conditional grants and receipts   |                    |                    |
| DEDEAT - Transfer Station   | 216,881            | 1,617,675          |
| Voting station - CoGTA  | -                  | 1,000,000          |
|   | <u>216,881</u>     | <u>2,617,675</u>   |
| Movement during the year  |                    |                    |
| Balance at the beginning of the year  | 2,617,675          | -                  |
| Additions during the year   | 77,086,793         | 90,658,000         |
| Income recognition during the year  | (79,487,587)       | (88,040,325)       |
|   | <u>216,881</u>     | <u>2,617,675</u>   |

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 the municipality complied with the conditions attached to all grants received to the extent of revenue recognised.

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

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016<br>Restated* |
|-----------------|------|-------------------|
|-----------------|------|-------------------|

### 15. Unspent conditional grants and receipts (continued)

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

These amounts are invested in a ring-fenced investment until utilised.

### 16. Provisions

#### Reconciliation of provisions - 2017

|                              | Opening<br>Balance | Additions | Total   |
|------------------------------|--------------------|-----------|---------|
| Environmental rehabilitation | 571,445            | 67,081    | 638,526 |

#### Reconciliation of provisions - 2016

|                              | Opening<br>Balance | Additions | Total   |
|------------------------------|--------------------|-----------|---------|
| Environmental rehabilitation | 388,373            | 183,072   | 571,445 |

#### Environmental rehabilitation provision

The municipality has a landfill site where it will need to rehabilitate the land at the end of its useful life. The rehabilitation costs determined are an estimate of the costs that will be incurred in order to meet the operational requirements of the site.

### 17. Retentions

Amounts withheld as surety on construction projects completed by awarded contractors. These amounts are recognised on payment certificates on stages of completion that have been paid to the contractors. The release of retentions is normally done 3 - 12 months after the project is certified as complete.

#### Carrying amount of retention

|   |                  |                  |
|---|------------------|------------------|
| Opening balance   | 5,209,269        | 3,938,418        |
| Increase/(decrease) in the carrying amount recognised in the period as a result of a change in the fair value of the assets to be distributed | 1,613,571        | 1,270,851        |
|   | <u>6,822,840</u> | <u>5,209,269</u> |

### 18. Service charges

|                |                |                |
|----------------|----------------|----------------|
| Refuse removal | <u>202,400</u> | <u>199,794</u> |
|----------------|----------------|----------------|

The amount disclosed above for revenue from service charges is in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.



# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

| Figures in Rand  | 2017               | 2016<br>Restated*  |
|--|--------------------|--------------------|
| <b>19. Other income</b>  |                    |                    |
| Auction sale   | 1,040,602          | -                  |
| D.L.T.C  | 3,284,167          | 2,356,875          |
| Insurance claim  | 39,046             | -                  |
| Registration Authority   | 361,620            | 61,324             |
| Sale of sites  | 1,184,420          | -                  |
| Plan fees  | -                  | 1,412              |
| Sundry income  | 1,751,375          | 28,055             |
| Tender sales   | 548,762            | 540,778            |
| Training - LGSETA  | 543,878            | 441,350            |
| Vending & Hawking fees   | 101,104            | 68,691             |
| Wood sales   | 209                | 299                |
|  | <b>8,855,183</b>   | <b>3,498,784</b>   |
| <b>20. Interest received on outstanding accounts</b>   |                    |                    |
| Description  |                    |                    |
| Interest received  | 1,163,265          | 203,866            |
| The Municipality started levying interest on debtors with arrear accounts in May 2016. The interest was not levied during 2014/15 financial year.  |                    |                    |
| <b>21. Donations received</b>  |                    |                    |
| Description  |                    |                    |
| Donations received   | -                  | 10,903,681         |
| Donations received relates to the Libode Eco-Park that was donated to the Municipality by the Department of Environmental affairs in 2015-2016 financial year year, there are no donations received by the municipality in the current financial year. |                    |                    |
| <b>22. Revenue</b>   |                    |                    |
| Commissions received   | 178,459            | 173,962            |
| Fees earned  | 49,996             | 43,788             |
| Fines, Penalties and Forfeits  | 195,901            | 75,800             |
| Government grants & subsidies  | 290,556,793        | 304,790,325        |
| Interest received (trading)  | 1,163,265          | 203,866            |
| Interest received - investment   | 8,198,053          | 7,231,406          |
| Other income   | 8,855,183          | 3,498,784          |
| Donations received   | -                  | 10,903,681         |
| Profit on investments  | -                  | 266,930            |
| Property rates   | 5,725,994          | 5,604,890          |
| Recoveries   | 1,965,474          | -                  |
| Rental of facilities and equipment   | 178,208            | 61,441             |
| Service charges  | 202,400            | 199,794            |
|  | <b>317,269,726</b> | <b>333,054,667</b> |

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

| Figures in Rand   | 2017               | 2016<br>Restated*  |
|---|--------------------|--------------------|
| <b>22. Revenue (continued)</b>  |                    |                    |
| Commissions received  | 178,459            | 173,962            |
| Fees earned   | 49,996             | 43,788             |
| Interest received (trading)   | 1,163,265          | 203,866            |
| Interest received - investment  | 8,198,053          | 7,231,406          |
| Other income  | 8,855,183          | 3,498,784          |
| Profit on investments   | -                  | 266,930            |
| Recoveries  | 1,965,474          | -                  |
| Rental of facilities and equipment  | 178,208            | 61,441             |
| Service charges   | 202,400            | 199,794            |
| The amount included in revenue arising from exchanges of goods or services are as follows:  | <u>20,791,038</u>  | <u>11,679,971</u>  |
| The amount included in revenue arising from non-exchange transactions is as follows:  |                    |                    |
| Taxation revenue  |                    |                    |
| Property rates  | 5,725,994          | 5,604,890          |
| Transfer revenue  |                    |                    |
| Government grants & subsidies   | 290,556,793        | 304,790,325        |
| Fines, Penalties and Forfeits   | 195,901            | 75,800             |
| Donations received  | -                  | 10,903,681         |
|   | <u>296,478,688</u> | <u>321,374,696</u> |
| <b>Recoveries</b>   |                    |                    |
| Included in other income is an amount of R1 965 474 which is the debtors impairment recovered. The debtors balance have decrease in the current year due to high levels of collection as a result the debtors impairment decreased when compared to the prior year. |                    |                    |
| <b>23. Investment revenue</b>   |                    |                    |
| Interest revenue  |                    |                    |
| Bank  | 8,198,053          | 7,231,406          |
|   | -                  | -                  |
|   | <u>8,198,053</u>   | <u>7,231,406</u>   |

## Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements

| Figures in Rand           | 2017               | 2016<br>Restated*  |
|---------------------------|--------------------|--------------------|
| <b>24. Property rates</b> |                    |                    |
| <b>Rates received</b>     |                    |                    |
| Property rates            | 7,632,180          | 6,557,983          |
| Less: Income forgone      | (1,906,186)        | (953,093)          |
|                           | <u>5,725,994</u>   | <u>5,604,890</u>   |
| <b>Valuations</b>         |                    |                    |
| Residential               | 112,290,000        | 112,290,000        |
| Commercial                | 81,630,000         | 81,630,000         |
| State                     | 51,565,000         | 51,565,000         |
| Municipal                 | 13,415,000         | 13,415,000         |
| Church                    | 15,245,000         | 15,245,000         |
| Schools                   | 291,705,000        | 291,705,000        |
| Clinic                    | 14,030,000         | 14,030,000         |
| Other                     | 20,025,000         | 20,025,000         |
| Less: Income forgone      | (22,885,000)       | (22,885,000)       |
|                           | <u>577,020,000</u> | <u>577,020,000</u> |

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The basis was 2c per rand on land and improvements. Rebates are applied according to council's policy.

Rates are levied annually in the first quarter on property owner's accounts. Owners are allowed to pay the annual assessment in 12 monthly instalments, which are payable on the last day of the month.

The general valuation roll that was approved for implementation on 01 July 2013 is still in use together with the supplementary valuation roll.

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

| Figures in Rand  | 2017               | 2016<br>Restated*  |
|--|--------------------|--------------------|
| <b>25. Government grants and subsidies</b>   |                    |                    |
| <b>Operating grants</b>  |                    |                    |
| Equitable share  | 213,070,000        | 216,750,000        |
| INEP electrification grant   | 11,250,000         | 25,000,000         |
| Expanded public work programme -EPWP   | 1,261,000          | 1,219,000          |
| Finance management grant -FMG  | 1,625,000          | 1,600,000          |
| Library subsidy  | 400,000            | 300,000            |
| Municipal Systems Improvement Grant - MSIG   | -                  | 930,000            |
| DEDEAT Grant   | 1,900,793          | 182,325            |
| Voting station grant   | 1,000,000          | -                  |
| Public works - side walks grant  | 2,000,000          | -                  |
|  | <u>232,506,793</u> | <u>245,981,325</u> |
| <b>Capital grants</b>  |                    |                    |
| Municipal Infrastructure grant - MIG   | 58,050,000         | 58,809,000         |
|  | <u>58,050,000</u>  | <u>58,809,000</u>  |
|  | <u>290,556,793</u> | <u>304,790,325</u> |
| <b>Conditional and Unconditional</b>   |                    |                    |
| Included in above are the following grants and subsidies received:   |                    |                    |
| Conditional grants received  | 74,086,793         | 90,358,000         |
| Unconditional grants received  | 216,470,000        | 217,050,000        |
|  | <u>290,556,793</u> | <u>307,408,000</u> |
| <b>Equitable Share</b>   |                    |                    |
| In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.   |                    |                    |
| <b>Equitable Share</b>   |                    |                    |
| Current-year receipts  | 213,070,000        | 216,750,000        |
| Conditions met - transferred to revenue  | (213,070,000)      | (216,750,000)      |
|  | <u>-</u>           | <u>-</u>           |
| The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury. |                    |                    |
| <b>Intergrated National Electrification Programme (INEP)</b>   |                    |                    |
| Current-year receipts  | 11,250,000         | 25,000,000         |
| Conditions met - transferred to revenue  | (11,250,000)       | (25,000,000)       |
|  | <u>-</u>           | <u>-</u>           |
| Conditions have been met.  |                    |                    |
| INEP Grant was used for electrical connections in previously disadvantaged areas.  |                    |                    |
| <b>Financial Management Grant (FMG)</b>  |                    |                    |
| Current-year receipts  | 1,625,000          | 1,600,000          |
| Conditions met - transferred to revenue  | (1,625,000)        | (1,600,000)        |
|  | <u>-</u>           | <u>-</u>           |

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

| Figures in Rand  | 2017           | 2016<br>Restated* |
|--|----------------|-------------------|
| <b>25. Government grants and subsidies (continued)</b>   |                |                   |
| Conditions have been met   |                |                   |
| FMG is used to promote and support reforms in financial management by building the capacity in municipalities to implement the Municipal Finance Management Act (MFMA).                    |                |                   |
| <b>Expanded Public Works Programme (EPWP)</b>  |                |                   |
| Current-year receipts  | 1,261,000      | 1,219,000         |
| Conditions met - transferred to revenue  | (1,261,000)    | (1,219,000)       |
|  | <u>-</u>       | <u>-</u>          |
| This grant was fully spent on employing casual workers within community based projects, especially within Infrastructure Department.   |                |                   |
| <b>Library subsidy</b>   |                |                   |
| Current-year receipts  | 400,000        | 300,000           |
| Conditions met - transferred to revenue  | (400,000)      | (300,000)         |
|  | <u>-</u>       | <u>-</u>          |
| This grant was fully expensed in development of the Libraries within the municipality  |                |                   |
| <b>Municipal Systems Improvement Grant (MSIG)</b>  |                |                   |
| Current-year receipts  | -              | 930,000           |
| Conditions met - transferred to revenue  | -              | (930,000)         |
|  | <u>-</u>       | <u>-</u>          |
| MSIG is used to assist municipalities in building in-house capacity to perform their functions and stabilize institutional and governance systems as required in the Municipal Systems Act |                |                   |
| <b>Municipal Infrastructure Grant (MIG)</b>  |                |                   |
| Current-year receipts  | 58,050,000     | 58,809,000        |
| Conditions met - transferred to revenue  | (58,050,000)   | (58,809,000)      |
|  | <u>-</u>       | <u>-</u>          |
| MIG Grant was used to accelerate provision of basic service delivery through construction of capital projects.   |                |                   |
| <b>DEDEAT - Transfer station</b>   |                |                   |
| Balance unspent at beginning of year   | 1,617,675      | -                 |
| Current-year receipts  | 500,000        | 1,800,000         |
| Conditions met - transferred to revenue  | (1,900,794)    | (182,325)         |
|  | <u>216,881</u> | <u>1,617,675</u>  |
| Conditions still to be met - remain liabilities (see note 15).   |                |                   |
| The grant was received from DEDEAT for establishment of a transfer station.  |                |                   |
| <b>Voting station - CoGTA</b>  |                |                   |
| Balance unspent at beginning of year   | 1,000,000      | -                 |

## Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements

| Figures in Rand  | 2017        | 2016<br>Restated* |
|--|-------------|-------------------|
| <b>25. Government grants and subsidies (continued)</b> |             |                   |
| Current-year receipts                                  | -           | 1,000,000         |
| Conditions met - transferred to revenue                | (1,000,000) | -                 |
|  | <u>-</u>    | <u>1,000,000</u>  |

The grant was received for assistance with voting station preparations. The total amount was fully spent by 30 June 2017.

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

| Figures in Rand                               | 2017              | 2016<br>Restated* |
|---|-------------------|-------------------|
| <b>26. General expenses</b>                   |                   |                   |
| Advertising                                   | 595,611           | 493,958           |
| Amenities & Community Facilities              | 102,921           | 302,383           |
| Auditors remuneration                         | 3,358,576         | 3,046,837         |
| Bank charges                                  | 69,470            | 112,117           |
| Books & publications                          | 61,498            | 95,674            |
| Cleaning                                      | 195,859           | 241,654           |
| Communication                                 | 433,730           | 459,299           |
| Community based public works programme (EPWP) | 128,257           | 466,622           |
| Conference fees & Accomodation costs          | 8,367,168         | 10,128,987        |
| Consultant fees                               | 2,730,669         | 3,836,178         |
| Consumables                                   | 1,900             | 10,600            |
| Crime prevention                              | 1,373,717         | 549,643           |
| Debt collection                               | 1,011,811         | 1,249,854         |
| Electricity purchases                         | 571,798           | 244,432           |
| Employee wellness programmes                  | 2,472,132         | 3,977,728         |
| Expenses not capitalised                      | 480,956           | 153,921           |
| Financial management grant                    | 1,807,125         | 1,363,910         |
| Fuel and oil                                  | 4,540,774         | 3,505,756         |
| Housing expenses                              | 42,260            | 30,600            |
| IDP Development                               | 1,157,312         | 1,281,380         |
| INEP Electrification project                  | 10,249,221        | 22,207,086        |
| Indigent subsidies                            | 1,271,452         | 6,064,954         |
| Insurance                                     | 753,023           | 61,865            |
| Internal audit costs                          | 431,205           | 548,509           |
| Landfill site                                 | 67,081            | 183,072           |
| LED projects                                  | 3,268,102         | 3,629,095         |
| Library services                              | 209,300           | 307,393           |
| License fees                                  | 343,106           | 338,026           |
| Lifeguard services                            | 465,400           | 579,140           |
| Project launches                              | 742,763           | 551,904           |
| Meeting costs                                 | 2,244,959         | 1,781,861         |
| Mlangane development fund                     | 3,900             | -                 |
| Municipal performance management system       | -                 | 13,713            |
| Municipal systems improvement grant - MSIG    | 215,541           | 930,932           |
| PMU Administration costs                      | 118,937           | 226,633           |
| Postage & Courier services                    | -                 | 3,969             |
| Pre - schools                                 | 1,461,907         | 489,847           |
| Printing & Stationery                         | 485,459           | 476,982           |
| Promotions and sponsorships                   | 2,913,060         | 3,411,889         |
| Public participation                          | 1,384,631         | 1,553,138         |
| Refuse bags & bins                            | 392,711           | 209,107           |
| Rental - Special facilities                   | 245,940           | 592,292           |
| Review of Institutional Policies              | 178,000           | 13,248            |
| Special Programs Unit                         | 815,390           | 711,279           |
| Sports & Recreation                           | 253,520           | 178,010           |
| Subscriptions and membership fees             | 1,529,198         | 1,267,360         |
| Subsistence & Travelling costs                | 541,216           | 661,889           |
| Survey & planning                             | 287,127           | 136,337           |
| Telephone costs                               | 6,579,707         | 5,914,670         |
| Training                                      | 1,001,282         | 1,708,368         |
| Transport forum                               | -                 | 31,000            |
| Uniform & Promotion                           | 344,886           | 314,942           |
| Vehicle hire                                  | 1,473,924         | 754,988           |
| Waste management                              | 98,701            | 69,514            |
|   | <b>69,874,193</b> | <b>87,474,545</b> |

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

| Figures in Rand                        | 2017              | 2016<br>Restated* |
|--|-------------------|-------------------|
| <b>27. Other revenue</b>               |                   |                   |
| Fees earned                            | 49,996            | 43,788            |
| Commissions received                   | 178,459           | 173,962           |
| Debt impairment recovered              | 1,965,474         | -                 |
| Profit on investments                  | -                 | 266,930           |
| Other income                           | 8,855,183         | 3,498,784         |
| <b>28. Remuneration of councillors</b> |                   |                   |
| Mayor                                  | 758,013           | 758,013           |
| Speaker                                | 606,410           | 606,410           |
| Chief Whip                             | 568,510           | 568,510           |
| Full time executive committee members  | 2,257,362         | 2,236,138         |
| Part time executive committee members  | 1,885,008         | 1,885,008         |
| Part-time Councillors allowances       | 12,336,085        | 10,946,829        |
|  | <u>18,411,388</u> | <u>17,000,908</u> |

### In-kind benefits

The Mayor, Speaker, Chief Whip and 3 of the Executive Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

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

The Mayor has three full-time bodyguards . The Speaker has one full-time driver.



## Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements

| Figures in Rand  | 2017               | 2016<br>Restated*  |
|--|--------------------|--------------------|
| <b>29. Employee related costs</b>                                  |                    |                    |
| Acting allowances  | 105,727            | 152,704            |
| Bargaining Council Levies  | 26,849             | 24,715             |
| Basic  | 66,537,967         | 59,725,410         |
| Bonus  | 5,698,085          | 4,532,614          |
| Contributions to current employee benefits - Long Service Awards   | 333,798            | 802,199            |
| Housing benefits and allowances                                    | 5,954,433          | 5,587,080          |
| Leave pay provision charge   | 1,428,093          | 1,119,391          |
| Medical aid - company contributions                                | 6,209,530          | 7,258,530          |
| Overtime payments  | 6,632,416          | 5,991,613          |
| Pension / Provident fund contributions                             | 6,082,493          | 5,808,172          |
| Personal facilities  | 3,969,056          | 3,751,596          |
| SDL  | 1,079,291          | 1,010,553          |
| Travel, motor car, accommodation, subsistence and other allowances | 9,031,360          | 8,948,665          |
| UIF  | 549,018            | 521,090            |
|  | <u>113,638,116</u> | <u>105,234,332</u> |
| <b>Remuneration of municipal manager - N Nomandela</b>             |                    |                    |
| Annual Remuneration  | 1,167,667          | 889,653            |
| Car Allowance  | 200,813            | 187,676            |
| Contributions to UIF, Medical and Pension Funds                    | 1,813              | 198,429            |
|  | <u>1,370,293</u>   | <u>1,275,758</u>   |
| <b>Remuneration of CFO - BK Benxa</b>                              |                    |                    |
| Annual Remuneration  | 968,364            | 845,795            |
| Car Allowance  | 165,866            | 155,015            |
| Contributions to UIF, Medical and Pension Funds                    | 1,813              | 71,215             |
|  | <u>1,136,043</u>   | <u>1,072,025</u>   |

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

| Figures in Rand   | 2017              | 2016<br>Restated* |
|---|-------------------|-------------------|
| <b>29. Employee related costs (continued)</b>                         |                   |                   |
| <b>Remuneration of Planning &amp; Development Manager - G Cekwana</b> |                   |                   |
| Annual Remuneration   | 856,040           | 654,758           |
| Car Allowance   | 276,443           | 258,358           |
| Contributions to UIF, Medical and Pension Funds                       | 1,813             | 158,584           |
|   | <u>1,134,296</u>  | <u>1,071,700</u>  |
| <b>Remuneration of Corporate Services Manager - S Mvunelo</b>         |                   |                   |
| Annual Remuneration   | 849,728           | 553,651           |
| Car Allowance   | 148,186           | 105,847           |
| Contributions to UIF, Medical and Pension Funds                       | 1,813             | 2,677             |
|   | <u>999,727</u>    | <u>662,175</u>    |
| <b>Remuneration of the Technical Services - QFQ Madikida</b>          |                   |                   |
| Annual Remuneration   | 750,773           | 578,235           |
| Car Allowance   | 246,976           | 247,732           |
| Contributions to UIF, Medical and Pension Funds                       | 1,813             | 247,605           |
|   | <u>999,562</u>    | <u>1,073,572</u>  |
| <b>Remuneration of Community Services Manager - GM Zide</b>           |                   |                   |
| Annual Remuneration   | 857,273           | 602,556           |
| Car Allowance   | 276,443           | 258,358           |
| Contributions to UIF, Medical and Pension Funds                       | 1,813             | 204,668           |
|   | <u>1,135,529</u>  | <u>1,065,582</u>  |
| <b>Remuneration of Strategic Planning Manager - L Madzidzela</b>      |                   |                   |
| Annual Remuneration   | 813,572           | 651,342           |
| Car Allowance   | 276,443           | 258,358           |
| Contributions to UIF, Medical and Pension Funds                       | 1,813             | 158,584           |
|   | <u>1,091,828</u>  | <u>1,068,284</u>  |
| <b>30. Depreciation and amortisation</b>                              |                   |                   |
| Property, plant and equipment   | 34,564,007        | 31,322,689        |
| Intangible assets   | 520,450           | 484,775           |
|   | <u>35,084,457</u> | <u>31,807,464</u> |
| <b>31. Finance costs</b>  |                   |                   |
| Trade and other payables late payment penalties                       | 14,261            | 5,321             |
| Finance leases  | 116,345           | 155,326           |
|   | <u>130,606</u>    | <u>160,647</u>    |
| <b>32. Auditors' remuneration</b>                                     |                   |                   |
| Fees  | 3,358,576         | 3,046,837         |

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

| Figures in Rand  | 2017               | 2016<br>Restated*  |
|--|--------------------|--------------------|
| <b>33. Cash generated from operations</b>              |                    |                    |
| Surplus  | 73,396,990         | 77,781,113         |
| Adjustments for:                                       |                    |                    |
| Depreciation and amortisation                          | 35,084,457         | 31,807,464         |
| Gain/(Loss) on sale of assets and liabilities          | 3,655,968          | 3,252,747          |
| Fair value adjustments                                 | (3,097,700)        | -                  |
| Finance costs - Finance leases                         | 130,606            | 160,647            |
| Debtors Impairment                                     | (361,346)          | 5,135,458          |
| Movements in retirement benefit assets and liabilities | 333,798            | 802,199            |
| Movements in provisions                                | 67,081             | 183,072            |
| Changes in working capital:                            |                    |                    |
| Inventories  | 80,261             | (108,218)          |
| Receivables from exchange transactions                 | 227,164            | (227,164)          |
| Consumer debtors                                       | (304,677)          | (1,660,822)        |
| Other receivables from non-exchange transactions       | (28,205)           | -                  |
| Payables from exchange transactions                    | 3,021,310          | (1,686,913)        |
| VAT  | 737,640            | (378,932)          |
| Unspent conditional grant                              | (2,400,794)        | 2,617,675          |
| Donations received                                     | -                  | (10,903,681)       |
|  | <u>110,542,553</u> | <u>106,774,645</u> |

### 34. Commitments

#### Authorised capital expenditure

Already contracted for but not provided for

- Property, plant and equipment

|  |                   |                   |
|--|-------------------|-------------------|
|  | <u>20,856,493</u> | <u>28,414,007</u> |
|--|-------------------|-------------------|

#### Total capital commitments

Already contracted for but not provided for

|  |                   |                   |
|--|-------------------|-------------------|
|  | <u>20,856,493</u> | <u>28,414,007</u> |
|--|-------------------|-------------------|

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

### 35. Contingencies

#### Contingent liabilities

BHS Building Contractors vs NLM Case no. 55/12  
 Zukiswa Skenjana vs NLM Case no. 1424/12  
 Maqhawe Construction vs NLM Case no. 249.2014  
 Nwabisa Ndamase vs NLM Case no. 241/2016

|  |                  |                  |
|--|------------------|------------------|
| BHS Building Contractors vs NLM Case no. 55/12 | 2,846,672        | 2,846,672        |
| Zukiswa Skenjana vs NLM Case no. 1424/12       | 600,000          | 600,000          |
| Maqhawe Construction vs NLM Case no. 249.2014  | 1,938,570        | 1,938,570        |
| Nwabisa Ndamase vs NLM Case no. 241/2016       | 2,500,000        | 2,500,000        |
|  | <u>7,885,242</u> | <u>7,885,242</u> |

The following is a list of possible outcomes:

#### 4. BHS Building Contractors cc vs Nyandeni Municipality (Case No 55/12)

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016<br>Restated* |
|-----------------|------|-------------------|
|-----------------|------|-------------------|

### 35. Contingencies (continued)

The municipality is being sued for a sum of R2 846 672.40 for the alleged unlawful cancellation of a contract for the construction of Ngqeleni Road. The municipality is defending the matter as it contends that the cancellation was lawful as the company had failed to honour the conditions of the contract. The municipality has filed its plea and the parties are still exchanging pleadings.

### 5. ZUKISWA SKENJANA vs NYANDENI LOCAL MUNICIPALITY CASE NO. 1424/12

The municipality is being sued for a sum of R600 000.00 for alleged negligence because the Plaintiff slipped on the stairs in the Municipal hall when she was attending a wedding. The Municipality is defending the matter since it is alleging that at the time of the incident the hall was not under the custody of the municipality but of the person who had hired the hall. The matter had been set down for hearing on the 2nd June 2014. The matter has been postponed sine die at the instance of the Plaintiff and wasted costs were granted to the municipality and is awaiting the allocation of a new date.

### 6. Maghawe Construction VS Nyandeni Local Municipality (Case No. 249/2014)

The municipality is being sued for a sum of R 1 938 570.00 (One Million Nine Hundred and Thirty Eight Thousand Five Hundred and Seventy Rands) by the contractor who claims that it is money owed by Municipality as standing time. This is the time that his machines stood on site while doing nothing and they claim that this is due to the fault of the municipality. The municipality is defending the matter as the contractor did not even finish the work that he was contracted to do. The is ripe for hearing and a pre-trial hearing has been arranged for the 5th February 2016.

### 8. Nwabisa Ndamase Vs Nyandeni Local Municipality (Case No. 214/2016)

In this matter the Municipality is being sued for a sum of R2 500 000.00 (two million five hundred thousand rands) by the plaintiff who claims that her child was killed when he drowned in a hole as a result of the negligence of the contractor that had been appointed by the municipality to construct a road in Mhlanganisweni Administrative area. The municipality is defending the matter and the parties are still exchanging pleadings.

### Contingent assets

#### Nyandeni Local Municipality vs Ayanda Maqolo (Case No 724/13)

The municipality is suing the above named person for the illegal invasion of municipal land. The municipality has obtained an interim interdict against the respondent and the matter has been set down in the opposed motion court for May 2014. The matter has since been heard and judgement was granted in favour of the municipality and the case is now closed.

#### Siyaphambili Trading vs Nyandeni Local Municipality and Others Case no.1454/13

An application was brought against the Municipality, the Municipal Manager and Alexander Maintenance for the review and setting aside of the decision of the Municipal Manager to award the tender of Nothintsila to Mvilo access road to Alexander Maintenance. The decision was first taken on appeal to the Executive Committee which upheld the decision of the Municipal Manager. The municipality opposed the matter and the matter has been decided in favour of the municipality with costs.

### 36. Related parties

#### Related party transactions

The municipality did not have any related party transaction except for the remuneration of councillors and the remuneration of senior managers which is disclosed in note 28 and 29 respectively.

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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| Figures in Rand | 2017 | 2016<br>Restated* |
|-----------------|------|-------------------|
|-----------------|------|-------------------|

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### 37. Risk management

#### Liquidity risk

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

#### Credit risk

Credit risk is the risk that a counterparty to a financial asset will fail to discharge an obligation and cause the municipality to incur a financial. Credit risk consist mainly of of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies.

Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality is compelled in terms of its consitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates and refuse.

Nyandeni Local Municipality endeavours to collect all debts owed to the municipality by sending statements monthly to remind debtors, levying of penalty charges and as a last resort hand over debtors to the debt collection agent. All rates and services are payables within 30 days from invoice date, refer to note 5 for all balances outstanding longer than 30 days. These debtors represent all debtors at year end which defaulted on their credit terms.

Cash and cash equivalents consist of short term investments and the primary bank account of the municipality. Short term investments are held in two banking institutions namely First National Bank and Standard Bank, this ensures that the municipality enjoys diversified interest rates.

| Financial Instrument      | 2017        | 2016        |
|---------------------------|-------------|-------------|
| Rates Debtors             | 1,655,809   | 1,370,886   |
| Refuse Debtors            | 46,742      | 26,989      |
| Cash and cash equivalents | 134,319,513 | 101,946,610 |
| Vat Receivable            | 4,402,345   | 5,139,985   |
| Other receivable          | -           | 227,164     |
| Debtors - Traffic fines   | 49,805      | 21,600      |

#### Market risk

##### Interest rate risk

Interest rate risk is the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market interest rates Not applicablr to the Municipality, there were no loans during the year.

Interest rate risk is not applicable to the municipality as there were no loans taken during the year and the penalty interest on outstanding debtors is fixed at 10%.

##### Price risk

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 caused by intererst rate risk) whether those changes are caused by factors specific to the individualfinancial instrument or its issuer.

The price risk is not applble to the municipality as the municipality does not have financial assets with prices dependent on the market prices.

### 38. Going concern

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

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

| Figures in Rand  | 2017   | 2016<br>Restated* |
|--|--|-------------------|
| <b>39. Events after the reporting date</b>   |  |                   |
| There are no adjusting events that were identified after year end by the municipality.               |  |                   |
| <b>40. Unauthorised expenditure</b>  |  |                   |
| Unauthorised expenditure   | -  | 12,228,021        |
|  | -  | (12,228,021)      |
|  | -  | -                 |
| <b>41. Fruitless and wasteful expenditure</b>  |  |                   |
| Opening balance  | -  | 5,947             |
| Add: Fruitless and wasteful expenditure current year   | 17,215   | 5,321             |
| Approved and written off by Council  | (17,215)   | (11,268)          |
|  | -  | -                 |
| <b>42. Irregular expenditure</b>   |  |                   |
| Opening balance  | -  | 13,912,082        |
| Add: Irregular Expenditure - current year  | 2,471,940  | 2,300,811         |
| Less: Amounts condoned   | (2,471,940)  | (16,212,893)      |
|  | -  | -                 |
| <b>Details of irregular expenditure – current year</b>   |  |                   |
| Tender requirements were not fully adhered to  | Disciplinary steps taken/criminal proceedings<br>N/A | 2,471,940         |
|  |  | -                 |
|  |  | -                 |
|  |  | -                 |
|  |  | <u>2,471,940</u>  |
| <b>Details of irregular expenditure written off</b>  |  |                   |
| Tender requirements were not fully adhered to  | Condoned by (condoning authority)<br>Condoned        | 1,990,306         |
| Irregular expenditure identified by A.G during audit where tender requirements were fully adhered to | Condoned   | 481,635           |
|  |  | <u>2,471,941</u>  |
| <b>43. Additional disclosure in terms of Municipal Finance Management Act</b>                        |  |                   |
| <b>Contributions to organised local government</b>   |  |                   |
| Current year subscription / fee  | 1,529,198  | 1,228,790         |
| Amount paid - current year   | (1,529,198)  | (1,228,790)       |
|  | -  | -                 |
| <b>Audit fees</b>  |  |                   |
| Current year subscription / fee  | 3,358,575  | 3,046,837         |
| Amount paid - current year   | (3,358,575)  | (3,046,837)       |
|  | -  | -                 |

## Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

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

##### PAYE and UIF

|                                 |              |              |
|---------------------------------|--------------|--------------|
| Current year subscription / fee | 17,777,412   | 16,803,487   |
| Amount paid - current year      | (17,777,412) | (16,803,487) |
|                                 | <u>-</u>     | <u>-</u>     |

##### Pension and Medical Aid Deductions

|                                 |              |              |
|---------------------------------|--------------|--------------|
| Current year subscription / fee | 24,617,180   | 24,660,517   |
| Amount paid - current year      | (24,617,180) | (24,660,517) |
|                                 | <u>-</u>     | <u>-</u>     |

##### VAT

|                |                  |                  |
|----------------|------------------|------------------|
| VAT receivable | <u>4,402,345</u> | <u>5,139,985</u> |
|----------------|------------------|------------------|

VAT receivables and VAT payables are shown in note 4 .

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

##### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2017:

| 30 June 2016         | Outstanding<br>less than 90<br>days<br>R | Outstanding<br>more than 90<br>days<br>R | Total<br>R |
|----------------------|--|--|------------|
| Councillor M Dambuza | <u>143</u>                               | <u>531</u>                               | <u>674</u> |

##### Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

|          |                  |                   |
|----------|------------------|-------------------|
| Incident |                  |                   |
| Other    | <u>9,202,796</u> | <u>10,190,892</u> |

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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### 44. Actual operating expenditure versus budgeted operating expenditure

Traffic fines - The over collection is due to implementation of GRAP 108 for statutory receivables in the current year.

Property rates - The variance is due to changes in property values as a result of implementation of supplementary valuation roll which was not available at the time of compiling the budget.

Recoveries - The collection levels on outstanding debtors increased during the year, thus the debtors impairment decreased as a result.

Investment property - The variance is due to fair value adjustment as a result of valuation of investment property that was conducted.

Intangible assets - The variance is as a result of no additions during the year. This was caused by the fact that intangible assets are normally procured based on the needs that arise during the year.

Personnel expenditure - The underspending is mainly due to performance bonuses that were budgeted for Senior Managers and Managers at anticipated rates and the performance assessments resulted into lower bonuses paid.

Remuneration of councillors - The underspending is as a result of salary increases that were budgeted to be higher than the actual increases that were determined by the upper limits which were not available at the time of compiling the budget.

Government grants and subsidies - The under collection is as a result of unspent conditional grants for transfer station.

Commissions received - The municipality is reducing on the number of companies that is administering, this actual amounts will continue to decrease over the years.

Fees earned and rental of facilities - The budgeted amounts are normally based on the prior year figures, however this item is consumer driven and the municipality does not have control over the movements on this item.

Service charges - The variance is due to the nature of the service which is refuse collection which is based on rendering of the service.

Finance Charges - The budgeted figures for finance charges was based on the prior year audited figures, the overspending is as a result of finance lease assets that were omitted in the prior year that have been disclosed as prior period error in the current year.

Repairs and maintenance - the variance is due to projects that were initially identified for repairs which have since been capitalised at year end.

Other income - The transfers from reserves to the amount of R71 597 900 are allocated to other income, whilst this does not relate to the collection for the year. The actual figures relates to the actual collections for the year, therefore the budget for actual collections was R11 444 032 ( R83 041 932 - R71 597 900) with a variance of R2 588 849 (R11 444 032 - R8 855 183). The variance is caused mainly by the fact that items of other income are consumer driven.

Depreciation and amortisation - The actual depreciation amount was significantly below budget due to unexpected events in the year. The events included the changing of the estimated useful lives of assets which resulted in useful lives increasing and as well as unexpected disposals in the current year and unexpected additions which are disclosed as prior period error.

Impairment loss - The budgeted impairment amount was based on the prior year figures and in the current year there was unexpected high levels of collection of debtors due to effective mechanisms implemented by the municipality for debt collection.

General expenses - The underspending on general expenses is due to unexpected decrease in electrification expenditure which was meant to be funded by operational budget.

Loss on disposal of assets - This loss on disposal variance is due to unexpected disposals in the current year.

Property, plant and equipment - The overspending is due to capitalisation of some projects that were budgeted under repairs and maintenance. An assessment is always made at year end to determine the extent and nature of works in the projects of repairs and maintenance to ascertain whether they constitute replacement of improvements.



## Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements

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#### 45. Other receivable

The R1 445 971 relates to monies identified as received by DLTC but not banked into the Nyandeni Local Municipality's Primary Bank Account over the period 1 July 2016 to 30 June 2017. A forensic investigation has been instituted and the municipality is considering to report the matter to the appropriate authorities and institute criminal prosecution i.e. open a case of fraud with local South African Police Station against the affected person. The whole amount has been provided for as impairment since there is no certainty of cash flowing into the municipality's bank account as this can only be confirmed by the court of law.

|                                 |                  |                |
|---------------------------------|------------------|----------------|
| <b>Gross amount</b>             |                  |                |
| Other receivables               | <u>1,445,971</u> | <u>227,164</u> |
| <b>Allowance for impairment</b> |                  |                |
| Other receivables               | <u>1,445,971</u> | <u>-</u>       |
| <b>Net balances</b>             |                  |                |
| Other receivables               | <u>-</u>         | <u>227,164</u> |
|                                 | <u>-</u>         | <u>227,164</u> |

#### 46. Receivables from exchange transactions

|                  |          |                |
|------------------|----------|----------------|
| Sundry customers | <u>-</u> | <u>227,164</u> |
|------------------|----------|----------------|

These are monies identified as received by the DLTC but not banked into the Nyandeni Local Municipality's FNB Bank account over the period 1 July 2016 to 30 June 2017. The municipality is considering to report the matter to the appropriate authorities and institute criminal prosecution i.e. open a case of fraud with local South African police station against the affected person.

#### 47. Receivables from non-exchange transactions

|       |               |               |
|-------|---------------|---------------|
| Fines | <u>49,805</u> | <u>21,600</u> |
|-------|---------------|---------------|

#### 48. Financial instruments disclosure

##### Categories of financial instruments

2017

##### Financial assets

|                           | At fair value      | At amortised cost | Total              |
|---------------------------|--------------------|-------------------|--------------------|
| Vat Receivable            | -                  | 4,402,345         | 4,402,345          |
| Consumer Debtors          | -                  | 1,529,600         | 1,529,600          |
| Cash and Cash equivalents | <u>134,319,513</u> | <u>-</u>          | <u>134,319,513</u> |
|                           | <u>134,319,513</u> | <u>5,931,945</u>  | <u>140,251,458</u> |

##### Financial liabilities

|                          | At amortised cost | Total   |
|--------------------------|-------------------|---------|
| Finance lease obligation | 567,957           | 567,957 |

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

| Figures in Rand                                     | 2017              | 2016<br>Restated* |
|---|-------------------|-------------------|
| <b>Financial Instruments disclosure (continued)</b> |                   |                   |
| Trade and other payables from exchange transactions | 14,093,222        | 14,093,222        |
| Unspent Conditional Grants and Receipts             | 216,881           | 216,881           |
| Retentions  | 6,822,840         | 6,822,840         |
|   | <u>21,700,900</u> | <u>21,700,900</u> |

### 2016

#### Financial assets

|                           | At fair value      | At amortised<br>cost | Total              |
|---------------------------|--------------------|----------------------|--------------------|
| Other receivables         | -                  | 227,164              | 227,164            |
| Vat Receivable            | -                  | 5,139,985            | 5,139,985          |
| Consumer Debtors          | -                  | 1,397,875            | 1,397,875          |
| Cash and Cash Equivalents | 101,946,610        | -                    | 101,946,610        |
|                           | <u>101,946,610</u> | <u>6,765,024</u>     | <u>108,711,634</u> |

#### Financial liabilities

|   | At amortised<br>cost | Total             |
|---|----------------------|-------------------|
| Finance lease obligation                | 478,890              | 478,890           |
| Payables from exchange transactions     | 11,059,203           | 11,059,203        |
| Unspent conditional grants and receipts | 2,617,675            | 2,617,675         |
| Retentions                              | 5,209,269            | 5,209,269         |
|   | <u>19,365,037</u>    | <u>19,365,037</u> |

#### 49. Fair value adjustments

|                       |                  |          |
|-----------------------|------------------|----------|
| Fair value adjustment | <u>3,097,700</u> | <u>-</u> |
|-----------------------|------------------|----------|

#### 50. Impairment of assets

##### Impairments

|   |                  |                  |
|---|------------------|------------------|
| Trade and other receivables   | 1,604,127        | 5,135,458        |
| This relates to movement in the impairment of consumer debtors. Each individual debtor was considered and evaluated in determining the impairment for debtors. A recoverability model was used in determining the amount recoverable from the debts owed for each debtor. The recoverability took into account the opening balance, current year debts as well as the receipts. |                  |                  |
|   | <u>1,604,127</u> | <u>5,135,458</u> |
|   | -                | -                |

#### 51. Related parties

The related parties that have been identified by the municipality are Councillors and Section 57 Managers. The transactions relating to Councillors and Section 57 managers are remuneration which are disclosed in note 27 and note 28 of the financial statements respectively. The Municipality did not have any related party transactions with other possible related parties like the district municipality. There are no key managers of the municipality that have any control in any company.

#### 52. Prior period errors

##### Land and Buildings

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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| Figures in Rand | 2017 | 2016<br>Restated* |
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|-----------------|------|-------------------|

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### 52. Prior period errors (continued)

The Municipality identified that there are properties that are registered under Nyandeni at the Deeds office but are not included in the fixed asset register of the municipality to the value of R1 124 550, these were then included in the fixed asset register of the municipality and some properties that are in the fixed asset register of the municipality but that are not registered under the municipality at the Deeds office and are not being controlled by the municipality to the value of R3 120 500 these were removed from the asset register. These adjustments are affecting the opening balances of 2015/16 financial year.

The corresponding depreciation for the properties that were removed from the fixed asset register is R29 512 and for the properties removed from the fixed asset register is R230 283. The accumulated depreciation impacted is R172 620 for the opening balances of 2015/16 and 28 831 for the current depreciation in 2015/16

It was also identified that in the adjustments made during 2014/15 financial year, depreciation to the amount of R506 111 for properties that were removed from the fixed asset register was never removed from the general ledger, this adjustment was also made in the opening balances of property plant and equipment. This adjustment will affect the opening balances of 2015/16.

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016<br>Restated* |
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### 52. Prior period errors (continued)

| Description  | 2017 | 2016        |
|--|------|-------------|
| Net decrease in land and buildings opening balance   | -    | (1,995,950) |
| Net decrease in accumulated surplus opening balance  | -    | 1,995,950   |
| Increase in assets opening balance (Decrease in land and buildings accumulated depreciation) | -    | 506,111     |
| Increase in accumulated surplus opening balance  | -    | (506,111)   |
| Increase in assets opening balance (Decrease in land and buildings accumulated depreciation) | -    | 172,620     |
| Increase in accumulated surplus opening balance  | -    | (172,620)   |
| Decrease in assets opening balance (increase in land and buildings accumulated depreciation) | -    | (28,831)    |
| Increase in depreciation   | -    | 28,831      |
|  | -    | -           |

### Investment properties

During the reconciliation of deeds office information and municipal fixed asset register, there are investment properties that were found at Deeds office as registered under Nyandeni to the value of R370 200 and these were not in the fixed asset register of the municipality. These properties were then included in the fixed asset register of the municipality. This adjustment affects the opening balance of 2015/16 financial year.

| Description                                     | 2017 | 2016    |
|---|------|---------|
| Increase in investment property opening balance | -    | 370,200 |
| Increase in revaluation reserve opening balance | -    | 370,200 |
|   | -    | -       |

### Finance lease asset

During 2015/16 financial year four (4) photocopy machines to the value of R191 550 were omitted in the finance lease register and in the financial records of the municipality. The prior year cost finance lease asset has been adjusted with an amount of R191 550 and the accumulated depreciation with an amount of R53 208.

The total lease payments relating to these machines was R65 790, R45 374 of this was a reduction of lease liability and R20 416 was interest expense.

| Description   | 2017 | 2016     |
|---|------|----------|
| Increase in assets (Finance lease asset)                      | -    | 191,550  |
| Increase in liabilities (Finance lease liability non-current) | -    | (84,274) |
| Increase in liabilities (Finance lease liability current)     | -    | (61,902) |
| Increase in expenses (finance cost)                           | -    | 20,416   |
| Decrease in expenses (Rental expenses)                        | -    | (65,790) |
| Increase in depreciation (Finance leased asset)               | -    | 53,208   |
| Increase in accumulated depreciation (Finance leased asset)   | -    | (53,208) |
|   | -    | -        |

### Work-in-progress

In 2015/16 financial year the amount of work-in-progress transferred to completed assets to the value of R1 475 386 was understated in the financial statements, however all these assets were correctly capitalised in the financial statements this was due to a mistake in casting the work-in-progress register. The prior year work-in-progress movement was adjusted by an amount of R1 475 386

| Description                         | 2017 | 2016        |
|-------------------------------------|------|-------------|
| Increase in assets additions        | -    | 1,475,387   |
| Decrease in assets additions in WIP | -    | (1,475,387) |

# Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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

### 52. Prior period errors (continued)

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

#### Retention

In 2015/16 financial year retention was overstated by an amount of R341 877. This was caused by including the savings made on the project as retention.

| Description                         | 2017 | 2016      |
|-------------------------------------|------|-----------|
| Decrease in liabilities (Retention) | -    | 341,877   |
| Increase in accumulated surplus     | -    | (341,877) |
|                                     | -    | -         |

#### Employee related costs

In the prior year an amount of R1 040 563 which is for remuneration of employees was disclosed as remuneration of councillors. This has led to the prior year remuneration of councillors being overstated and the remuneration of employees being understated by the same amount.

This adjustment does not have an impact in the reported accumulated surplus as it is as a result of incorrect classification within the employee related cost. The effects of the adjustment are as follows:

| Description                             | 2017 | 2016        |
|---|------|-------------|
| Decrease in remuneration of councillors | -    | (1,040,563) |
| Increase in remuneration of employees   | -    | 1,040,563   |
|   | -    | -           |

#### Motor vehicles and plant and machinery

In 2013/14 financial year motor vehicles were impaired with an amount of R48 266 and plant and machinery were impaired with an amount of R240 953. The impairment was correctly processed in the fixed asset register but in the general ledger the impairment was processed against the cost of the asset instead of against accumulated depreciation and impairment losses. This adjustment affects the assets opening balances for 2015/16 financial year.

In 2014/15 motor vehicles with a cost of R1 995 755 and plant and machinery with a cost of R2 958 995 were disposed. The accumulated depreciation for motor vehicles was R1 571 819 and for plant and machinery it was R2 177 833.

The disposal for plant and machinery with a cost of R2 958 995 was processed against the motor vehicles account in the general ledger as well as the accumulated depreciation for plant and machinery of R2 177 833 was processed against the motor vehicles accumulated depreciation account in the general ledger. This resulted in the overstatement of plant and machinery cost and accumulated depreciation and understatement of motor vehicles cost and accumulated depreciation. This adjustment affects the assets opening balance for 2015/16 financial year.

| Description   | 2017 | 2016        |
|---|------|-------------|
| Increase in assets opening balances (motor vehicles cost)   | -    | 48,266      |
| Decrease in assets opening balance (Motor vehicles accumulated depreciation and impairment losses)      | -    | (48,266)    |
| Increase in assets opening balances (plant and machinery cost)  | -    | 240,953     |
| Decrease in assets opening balance (Plant and machinery accumulated depreciation and impairment losses) | -    | (240,953)   |
| Increase in assets opening balances (motor vehicles cost)   | -    | 2,958,995   |
| Decrease in assets opening balances (Plant and machinery cost)  | -    | (2,958,995) |
| Decrease in assets opening balances (Motor vehicles accumulated depreciation)                           | -    | (2,177,833) |
| Increase in assets opening balance (Plant and machinery accumulated depreciation)                       | -    | 2,177,833   |
|   | -    | -           |