Ngaka Modiri Molema District Municipality
Annual Financial Statements
for the year ended June 30, 2017
Auditor General of South Africa
Registered Auditors

# General Information

| | |
|---|---|
| **Legal form of entity** | District Municipality |
| **Nature of business and principal activities** | Water and sanitation service authority |
| **Mayoral committee** | |
| Executive Mayor | CLLR TJ Makolomakwa (Executive Mayor) |
| Councillors | CLLR YF Sechoaro (Speaker) |
| | CLLR IE Lethoko ( Single Whip) |
| | CLLR PM Tlhako ( MMC :Corporate services) |
| | CLLR P Kwanaite (MMC: Health and sefety) |
| | CLLR P Malebelela ( MMC : Finance ) |
| | CLLR E Landsman ( MMC : District planning and IDP) |
| | CLLR K.G Mathakathaka ( MMC : Infrastructure) |
| | CLLR OJ Tselapedi |
| | CLLR Benjamin Tshabalala |
| | CLLR Elizabeth Makalela |
| | CLLR Matlomola Jafta |
| | CLLR Daniel Motlhatlhedi |
| | CLLR Moabi Thabeng |
| | CLLR Joseph Mekgwa |
| | CLLR Tebatso Maibi |
| | CLLR Thapelo Mothibi |
| | CLLR Johannes Kekana |
| | CLLR Abram Mabovu |
| | CLLR Gloria Nkitseng |
| | CLLR Gloria Leepo |
| | CLLR Gosiame Seatlholo |
| | CLLR Israel Moloantoa |
| | CLLR Kenaope Moepeng |
| | CLLR Lerato Selebogo |
| | CLLR Matshidisi Moreo |
| | CLLR Tsholofelo Moreo |
| | CLLR Maria Ndlovu |
| | CLLR Padi Molefe |
| | CLLR Segametsi Ntladi |
| | CLLR Sello Lucas Molefe |
| | CLLR Nkagisang Mokoena |
| | CLLR Thandiwe Molawa |
| | CLLR Thapelo Mvundisi |
| | CLLR Sonnyboy Modibetsane |
| | CLLR Kegomoditswe Badirwang |
| | CLLR Lisa-mara Schickering |
| | CLLR Teko Melamu |
| | CLLR Piet Miga |
| | CLLR Neo Moroeng |
| | CLLR Peter Mogatwe |
| | CLLR Ramalepa Phetwe |
| | Kgosi Victor Suping |
| | Kgosi Mogakolodi Masibi |
| | Kgosi R Matlaba |
| | Kgosi J Montshioa |

# General Information

| | |
|---|---|
| | Kgosi K Lencoe |
| **Accounting Officer** | Mrs MMJ Mohlakoana |
| **Chief Finance Officer (CFO)** | G.M Mofokeng |
| **Registered office** | Cnr. Carrington Str and 1st Avenue<br>Industrial Site<br>Mahikeng<br>2745 |
| **Postal address** | Private Bag X2165<br>Mahikeng<br>2745 |
| **Bankers** | First National bank |
| **Auditors** | Auditor General of South Africa<br>Registered Auditors |

# Index

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



**Abbreviations**

| | |
|---|---|
| COID | Compensation for Occupational Injuries and Diseases |
| CRR | Capital Replacement Reserve |
| DBSA | Development Bank of South Africa |
| SA GAAP | South African Statements of Generally Accepted Accounting Practice |
| GRAP | Generally Recognised Accounting Practice |
| GAMAP | Generally Accepted Municipal Accounting Practice |
| 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) |

# Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality’s cash flow forecast for the year to June 30, 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.

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

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 63, which have been prepared on the going concern basis, were approved by the accounting officer on August 31, 2017 and were signed on its behalf by:

**Mr MMJ Mohlakoana**
**Municipal Manager**

# Statement of Financial Position as at June 30, 2017

| Figures in Rand | Note(s) | 2017 | 2016 |
|---|---|---|---|
| **Assets** | | | |
| Current Assets | | | |
| Inventories | 7 | 11,939,050 | 17,273,204 |
| Receivables from exchange transactions | 8 | 328,889 | 513,373 |
| VAT receivable | 9 | 114,240,392 | 108,949,025 |
| Cash and cash equivalents | 10 | 13,829,442 | 1,803,261 |
| | | **140,337,773** | **128,538,863** |
| Non-Current Assets | | | |
| Property, plant and equipment | 3 | 3,371,078,324 | 3,670,800,659 |
| Intangible assets | 4 | 2,214,129 | 630,988 |
| Other financial assets | 5 | 236,884 | 1,988,273 |
| | | **3,373,529,337** | **3,673,419,920** |
| Non-Current Assets | | 3,373,529,337 | 3,673,419,920 |
| Current Assets | | 140,337,773 | 128,538,863 |
| **Total Assets** | | **3,513,867,110** | **3,801,958,783** |
| **Liabilities** | | | |
| Current Liabilities | | | |
| Other financial liabilities | 13 | - | 796,306 |
| Payables from exchange transactions | 15 | 549,106,302 | 543,966,155 |
| Employee benefit obligation | 6 | 153,000 | 102,000 |
| Unspent conditional grants and receipts | 12 | 20,106,406 | 90,443,043 |
| Provisions | 14 | 1,056,000 | 790,000 |
| | | **570,421,708** | **636,097,504** |
| Non-Current Liabilities | | | |
| Other financial liabilities | 13 | - | 635,014 |
| Employee benefit obligation | 6 | 26,870,000 | 27,701,000 |
| Provisions | 14 | 22,559,000 | 18,985,000 |
| | | **49,429,000** | **47,321,014** |
| Non-Current Liabilities | | 49,429,000 | 47,321,014 |
| Current Liabilities | | 570,421,708 | 636,097,504 |
| **Total Liabilities** | | **619,850,708** | **683,418,518** |
| Assets | | 3,513,867,110 | 3,801,958,783 |
| Liabilities | | (619,850,708) | (683,418,518) |
| **Net Assets** | | **2,894,016,402** | **3,118,540,265** |
| Accumulated surplus | 11 | 2,894,016,400 | 3,118,540,263 |

## Statement of Financial Performance

| Figures in Rand | Note(s) | 2017 | 2016 |
|---|---|---|---|
| **Revenue** | | | |
| **Revenue from exchange transactions** | | | |
| Insurance claims | | - | 131,870 |
| Other revenue | | 942,930 | 1,026,497 |
| Rental income | | 208,000 | 185,500 |
| Sale of water | | 963,220 | 958,586 |
| Other income | | 41,569 | 380,271 |
| sundry income sewer | | 118,202 | 227,141 |
| Interest received | 18 | 4,784,006 | 3,023,932 |
| **Total revenue from exchange transactions** | | **7,057,927** | **5,933,797** |
| **Revenue from non-exchange transactions** | | | |
| **Transfer revenue** | | | |
| Government grants & subsidies | 19 | 664,202,413 | 614,847,305 |
| Donations | | 255,878 | 69,594 |
| **Total revenue from non-exchange transactions** | | **664,458,291** | **614,916,899** |
| | | 7,057,927 | 5,933,797 |
| | | 664,458,291 | 614,916,899 |
| **Total revenue** | 16 | **671,516,218** | **620,850,696** |
| **Expenditure** | | | |
| Employee related costs | 20 | (306,936,890) | (294,719,501) |
| Remuneration of councillors | 21 | (8,398,324) | (13,251,109) |
| Depreciation and amortisation | | (384,823,828) | (334,912,968) |
| Lease rentals on operating lease | | (408,786) | (503,033) |
| Repairs and maintenance | 36 | (28,089,906) | (64,181,054) |
| Contracted services | 37 | (123,457,091) | (220,963,271) |
| Transfers and Subsidies | | (3,532,687) | (11,662,547) |
| General Expenses | 22 | (40,259,743) | (52,372,919) |
| **Total expenditure** | | **(895,907,255)** | **(992,566,402)** |
| Operating surplus/deficit | | - | - |
| Deficit before taxation | | (224,391,037) | (371,715,706) |
| Taxation | | - | - |
| **Deficit for the year** | | **(224,391,037)** | **(371,715,706)** |

## Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
|---|---|---|
| Opening balance as previously reported | 3,737,147,393 | 3,737,147,393 |
| Adjustments | | |
| Correction of errors | (246,891,424) | (246,891,424) |
| **Balance at July 1, 2015 as restated*** | **3,490,255,969** | **3,490,255,969** |
| Changes in net assets | | |
| Surplus for the year | (371,715,706) | (371,715,706) |
| Total changes | (371,715,706) | (371,715,706) |
| Opening balance as previously reported | 3,118,407,437 | 3,118,407,437 |
| Adjustments | | |
| Prior year adjustments | - | - |
| **Balance at July 1, 2016 as restated*** | **3,118,407,437** | **3,118,407,437** |
| Changes in net assets | | |
| Surplus for the year | (224,391,037) | (224,391,037) |
| Total changes | (224,391,037) | (224,391,037) |
| **Balance at June 30, 2017** | **2,894,016,400** | **2,894,016,400** |

Note(s)

# Cash Flow Statement

| Figures in Rand | Note(s) | 2017 | 2016 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Grants | | 654,502,445 | 509,895,000 |
| Interest income | | 4,784,006 | 3,023,932 |
| Other receipts | | 2,273,921 | 342,046,106 |
| | | 661,560,372 | 854,965,038 |
| **Payments** | | | |
| Employee costs | | (306,936,890) | (301,118,991) |
| Suppliers | | (256,099,910) | (340,357,214) |
| | | (563,036,800) | (641,476,205) |
| Total receipts | | 661,560,372 | 854,965,038 |
| Total payments | | (563,036,800) | (641,476,205) |
| **Net cash flows from operating activities** | 24 | **98,523,572** | **213,488,833** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 3 | (85,347,430) | (229,281,985) |
| Proceeds from sale of property, plant and equipment | 3 | 113,111 | 7,685 |
| Purchase of other intangible assets | 4 | (1,583,141) | (532,051) |
| Movement in investments | | - | 29,900,726 |
| Proceeds from sale of financial assets | | 1,751,389 | (1,988,273) |
| **Net cash flows from investing activities** | | **(85,066,071)** | **(201,893,898)** |
| **Cash flows from financing activities** | | | |
| Repayment of other financial liabilities | | (1,431,320) | (7,042,044) |
| **Net cash flows from financing activities** | | **(1,431,320)** | **(7,042,044)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **12,026,181** | **4,552,891** |
| Cash and cash equivalents at the beginning of the year | | 1,803,261 | (2,749,630) |
| **Cash and cash equivalents at the end of the year** | 10 | **13,829,442** | **1,803,261** |

# Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Performance** | | | | | | |
| **Revenue** | | | | | | |
| **Revenue from exchange transactions** | | | | | | |
| Commissions received | - | - | **-** | 942,930 | **942,930** | A |
| Rental income | 211,140 | (5,140) | **206,000** | 208,000 | **2,000** | B |
| Discount received | - | - | **-** | 963,220 | **963,220** | C |
| Other income 2 | - | - | **-** | 41,569 | **41,569** | D |
| Sundry income | - | - | **-** | 118,202 | **118,202** | E |
| Interest received - investment | - | 2,006,329 | **2,006,329** | 4,784,006 | **2,777,677** | G |
| Other income | 3,288,590 | 606,661 | **3,895,251** | - | **(3,895,251)** | H |
| **Total revenue from exchange transactions** | **3,499,730** | **2,607,850** | **6,107,580** | **7,057,927** | **950,347** | |
| **Revenue from non-exchange transactions** | | | | | | |
| **Transfer revenue** | | | | | | |
| Government grants & subsidies | 850,954,000 | (173,572,224) | **677,381,776** | 664,202,413 | **(13,179,363)** | I |
| Donation received | - | - | **-** | 255,878 | **255,878** | F |
| **Total revenue from non-exchange transactions** | **850,954,000** | **(173,572,224)** | **677,381,776** | **664,458,291** | **(12,923,485)** | |
| 'Total revenue from exchange transactions' | 3,499,730 | 2,607,850 | **6,107,580** | 7,057,927 | **950,347** | |
| 'Total revenue from non-exchange transactions' | 850,954,000 | (173,572,224) | **677,381,776** | 664,458,291 | **(12,923,485)** | J |
| **Total revenue** | **854,453,730** | **(170,964,374)** | **683,489,356** | **671,516,218** | **(11,973,138)** | |
| **Expenditure** | | | | | | |
| Personnel | (302,227,706) | - | **(302,227,706)** | (306,936,890) | **(4,709,184)** | K |
| Remuneration of councillors | (13,054,364) | - | **(13,054,364)** | (8,398,324) | **4,656,040** | L |
| Depreciation and amortisation | (229,414,501) | - | **(229,414,501)** | (384,823,828) | **(155,409,327)** | M |
| Finance costs | (3,150,000) | - | **(3,150,000)** | - | **3,150,000** | N |
| Lease rentals on operating lease | - | - | **-** | (408,786) | **(408,786)** | P |
| Other Material | (29,500,000) | 997,667 | **(28,502,333)** | - | **28,502,333** | O |
| Repairs and maintenance | - | - | **-** | (28,089,906) | **(28,089,906)** | Q |
| Contracted Services | (14,810,000) | (27,587) | **(14,837,587)** | (123,457,091) | **(108,619,504)** | R |
| Transfers and Subsidies | (15,561,000) | - | **(15,561,000)** | (3,532,687) | **12,028,313** | S |
| General Expenses | (97,387,445) | (655,170) | **(98,042,615)** | (40,259,743) | **57,782,872** | T |
| **Total expenditure** | **(705,105,016)** | **314,910** | **(704,790,106)** | **(895,907,255)** | **(191,117,149)** | |
| | 149,348,714 | (170,649,464) | **(21,300,750)** | (224,391,037) | **(203,090,287)** | |
| | - | - | **-** | - | **-** | |
| **Deficit before taxation** | **149,348,714** | **(170,649,464)** | **(21,300,750)** | **(224,391,037)** | **(203,090,287)** | |
| Surplus before taxation | 149,348,714 | (170,649,464) | **(21,300,750)** | (224,391,037) | **(203,090,287)** | |
| Taxation | - | - | **-** | - | **-** | |
| **Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement** | **149,348,714** | **(170,649,464)** | **(21,300,750)** | **(224,391,037)** | **(203,090,287)** | |

# Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
| --- | --- | --- | --- | --- | --- | --- |

**Reconciliation**

# Accounting Policies

## 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.

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

These accounting policies are consistent with the previous period.

### 1.1 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.

### 1.2 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.

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

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

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

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

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for X,X and X which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated 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.

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

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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

| Item | Depreciation method | Average useful life |
|---|---|---|
| Land and building | Straight line | |
| • Land | - | - |
| • Community facilities-Halls/Centres | Min-15 | Max-100 |
| • Servitudes-Road Reverses | - | - |
| • Operational Facilities-Fire/Ambulance stations | Min-5 | Max-100 |
| • Operational Facilities-Municipal offices | Min-5 | Max-100 |
| • Operational Facilities-Workshops/Depots/Yards | Min-5 | Max-100 |
| • Sports and recreational faciliaties-Outdoor | Min-15 | Max-50 |
| • Housing-Staff Housing | Min-15 | Max-100 |
| Infrastructure | Straight line | |
| • Stormwater network- storm water assets | Min- 20 | Max-50 |
| • Water Supply network- Boreholes | Min-10 | Max-100 |
| • Water Supply network- Bulk main | Min-40 | Max-80 |
| • Water Supply network-Dams & weirs | Min-15 | Max-50 |
| • Water Supply network-Distributions | Min-80 | Max-80 |
| • Water Supply network-Distributions Points | Min-15 | Max-20 |
| • Water Supply network-Pump Stations | Min-5 | Max-100 |
| • Water Supply network-Reservoirs and Towers | Min-7 | Max-100 |
| • Water Supply network-Water treatment works | Min-5 | Max-100 |
| • Electricity Network-LV Network (<1000V) | Min-20 | Max-20 |
| • Electricity Network-MV Network (<33KV) | Min-45 | Min-45 |
| • Road Network- Roads | Min-5 | Max-100 |
| • Road Network- Roadside assets | Min-10 | Max-50 |
| • Sanitation Network-Boreholes | Min-15 | Max-50 |
| • Sanitation Network-Outfall Sewer | Min-80 | Max-80 |
| • Sanitation Network- Reservoirs and tower | Min-15 | Max-50 |
| • Sanitation Network- Reticulation | Min-80 | Max-80 |
| • Sanitation Network-Sewer pump station | Min-10 | Max-100 |
| • Sanitation Network-Waste water treatment works | Min-5 | Max-100 |
| • Bridges-Road bridges | Min-50 | Max-50 |

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

# Accounting Policies

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

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

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

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

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

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

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

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

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

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

### 1.3 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.

### 1.3 Intangible assets (continued)

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 | Depreciation method | Average useful life |
|---|---|---|
| Computer software, other | Straight line | 8 |

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

### 1.4 Financial instruments

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

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

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

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

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

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

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’).

**1.4 Financial instruments (continued)**

- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

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

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

A financial asset is:

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

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

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

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

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

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

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

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

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

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

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

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

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity’s net assets, either before the contribution occurs or at the time of the contribution; or

**1.4 Financial instruments (continued)**

- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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

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

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

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

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

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

**Initial recognition**

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

The entity recognises financial assets using trade date accounting.

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

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

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

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

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

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

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

### 1.4 Financial instruments (continued)

**Derecognition**

**Financial assets**

The entity derecognises financial assets using trade date accounting.

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

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

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

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

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

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

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

**Financial liabilities**

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

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

## Accounting Policies

### 1.4 Financial instruments (continued)

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

**Presentation**

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

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

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

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

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

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

### 1.5 Statutory receivables

**Identification**

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

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

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

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

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

**Recognition**

The municipality recognises statutory receivables as follows:

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

**Initial measurement**

The municipality initially measures statutory receivables at their transaction amount.

### 1.5 Statutory receivables (continued)

**Subsequent measurement**

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

**Derecognition**

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

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

### 1.6 Leases

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

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

### 1.7 Inventories

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

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

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

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

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

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

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

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

### 1.7 Inventories (continued)

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

### 1.8 Employee benefits

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

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

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

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

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

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

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

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

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

**Post-employment benefits**

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

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

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

### 1.8 Employee benefits (continued)

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

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

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

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

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

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

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

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

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

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

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

The amount recognised as a defined benefit liability is the net total of the following amounts:

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

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

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

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

### 1.8 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

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

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

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

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

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

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

### 1.8 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.

### 1.9 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.

### 1.9 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 27.

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.

### 1.10 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.

### 1.10 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.

### 1.11 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 .

### 1.12 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.

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

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, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

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

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

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

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

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

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

**Recognition**

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

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

**Measurement**

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

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.

# Accounting Policies

### 1.13 Comparative figures

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

### 1.14 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.

### 1.15 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.

### 1.16 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

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

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

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

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

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

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

# Accounting Policies

### 1.17 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 national 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.

### 1.18 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.

| Figures in Rand | 2017 | 2016 |
| --- | --- | --- |

# Notes to the Annual Financial Statements

## 2. New standards and interpretations

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

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

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
| --- | --- | --- |
| • GRAP 108: Statutory Receivables | April 1, 2016 | The impact of the is not material. |
| • GRAP 32: Service Concession Arrangements: Grantor | April 1, 2016 | The impact of the is not material. |
| • IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset | April 1, 2016 | The impact of the is not material. |

| Figures in Rand | 2017 | 2016 |
| --- | --- | --- |

# Notes to the Annual Financial Statements

Figures in Rand

### 3. Property, plant and equipment

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** |
| Land | 16,317,852 | - | 16,317,852 | 16,317,852 | - | 16,317,852 |
| Buildings | 104,346,733 | (54,633,641) | 49,713,092 | 104,346,733 | (50,962,562) | 53,384,171 |
| Furniture and fixtures | 3,695,781 | (2,128,479) | 1,567,302 | 3,695,781 | (1,477,316) | 2,218,465 |
| Motor vehicles | 74,204,565 | (49,184,946) | 25,019,619 | 73,598,537 | (39,142,468) | 34,456,069 |
| IT equipment | 4,307,089 | (2,397,856) | 1,909,233 | 3,880,430 | (1,729,447) | 2,150,983 |
| Infrastructure | 6,985,689,288 | (4,200,307,364) | 2,785,381,924 | 6,977,255,121 | (3,830,868,705) | 3,146,386,416 |
| Community | 54,118,798 | (34,571,634) | 19,547,164 | 54,118,798 | (33,846,816) | 20,271,982 |
| Other property, plant and equipment | 795,668 | (395,164) | 400,504 | 795,668 | (226,541) | 569,127 |
| WIP | 471,169,383 | - | 471,169,383 | 394,915,163 | - | 394,915,163 |
| Emergency assets | 296,582 | (244,331) | 52,251 | 296,582 | (166,151) | 130,431 |
| **Total** | **7,714,941,739** | **(4,343,863,415)** | **3,371,078,324** | **7,629,220,665** | **(3,958,420,006)** | **3,670,800,659** |

## Notes to the Annual Financial Statements

Figures in Rand

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

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

| | Opening balance | Additions | Disposals | Transfers received | Depreciation | Impairment loss | Total |
|---|---|---|---|---|---|---|---|
| Land | 16,317,852 | - | - | - | - | - | 16,317,852 |
| Buildings | 61,822,543 | - | - | - | (3,648,760) | (22,319) | 58,151,464 |
| Furniture and fixtures | 2,138,462 | 80,003 | - | - | (651,163) | - | 1,567,302 |
| Motor vehicles | 34,455,276 | 606,821 | - | - | (10,042,478) | - | 25,019,619 |
| IT equipment | 2,224,821 | 352,821 | - | - | (668,409) | - | 1,909,233 |
| Infrastructure | 3,146,386,416 | 7,927,697 | (113,111) | - | (368,819,078) | - | 2,785,381,924 |
| Community | 11,833,611 | - | - | - | (724,819) | - | 11,108,792 |
| Other property, plant and equipment | 454,704 | - | - | - | (54,200) | - | 400,504 |
| WIP infrastructure | 394,915,163 | 84,181,917 | - | (7,927,697) | - | - | 471,169,383 |
| Emergency Equipment | 130,431 | - | - | - | (78,180) | - | 52,251 |
| | **3,670,679,279** | **93,149,259** | **(113,111)** | **(7,927,697)** | **(384,687,087)** | **(22,319)** | **3,371,078,324** |

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

| | Opening balance | Additions | Correction of Error | Reallocation | Other | Depreciation | Total |
|---|---|---|---|---|---|---|---|
| Land | 3,914,628 | 12,403,224 | - | - | - | - | 16,317,852 |
| Buildings | 62,687,662 | 1,405,597 | (7,348,615) | 8,965,907 | - | (3,888,008) | 61,822,543 |
| Furniture and fixtures | 2,924,246 | 78,699 | - | - | - | (623,132) | 2,379,813 |
| Motor vehicles | 49,300,688 | - | - | - | - | (9,967,254) | 39,333,434 |
| IT equipment | 2,714,623 | 59,488 | - | - | - | (602,697) | 2,171,414 |
| Infrastructure | 2,760,959,404 | - | 698,850,669 | - | - | (313,423,657) | 3,146,386,416 |
| Community | 54,766,063 | - | (33,239,808) | (8,965,907) | - | (726,737) | 11,833,611 |
| Other property, plant and equipment | 251,177 | 57,839 | - | - | - | (49,700) | 259,316 |
| WIP- Infrastructure | 1,857,036,869 | 53,260,619 | (1,515,373,554) | - | (8,771) | - | 394,915,163 |
| Emergency Equipment | 234,312 | - | - | - | - | (78,180) | 156,132 |
| | **4,794,789,672** | **67,265,466** | **(857,111,308)** | **-** | **(8,771)** | **(329,359,365)** | **3,675,575,694** |

**Depreciation rates**

# Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

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

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 4. Intangible assets

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated amortisation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated amortisation and accumulated impairment** | **Carrying value** |
| Intangible assets 1 | 2,290,592 | (76,463) | 2,214,129 | 707,451 | (76,463) | 630,988 |

**Reconciliation of intangible assets - 2017**

| | Opening balance | Additions | Total |
|---|---|---|---|
| Computer software | 630,988 | 1,583,141 | 2,214,129 |

**Reconciliation of intangible assets - 2016**

| | Opening balance | Additions | Total |
|---|---|---|---|
| Intangible assets 1 | 50,267 | 580,721 | 630,988 |

### 5. Other financial assets

| | 2017 | 2016 |
|---|---|---|
| **At amortised cost** | | |
| Momentum Investments | 236,884 | 218,119 |
| Terms and conditions | | |
| ABSA Aims | - | 1,770,154 |
| Terms and conditions | | |
| | **236,884** | **1,988,273** |
| **Non-current assets** | | |
| At amortised cost | 236,884 | 1,988,273 |
| Non-current assets | 236,884 | 1,988,273 |
| Current assets | - | - |

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 6. Employee benefit obligations

**Defined benefit plan**

**Post retirement medical aid plan**

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees
The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:
- Bonitas
- Hosmed
- Keyhealth
- LA Health
- Samwumed

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 30 June 2017 by Mr Neil Fourie, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method
**The members of the Post-employment Health Care Benefit Plan are made up as follows**

| **Categories** | | | Valuation 30 June 2017 | Valuation 30 June 2016 | Total |
|---|---|---|---|---|---|
| In-service Members (Employees) | - | - | 649 | 671 | 1,320 |
| In-service Non-members (Employees) | - | - | 53 | 106 | 159 |
| Continuation Members (Retirees, widowers and orphans) | - | - | 5 | 4 | 9 |
| | **-** | **-** | **707** | **781** | **1,488** |

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

| | 2017 | 2016 |
|---|---|---|
| **Carrying value** | | |
| Present value of the defined benefit obligation-wholly unfunded | (27,023,000) | (27,803,000) |
| Non-current liabilities | (26,870,000) | (27,701,000) |
| Current liabilities | (153,000) | (102,000) |
| | **(27,023,000)** | **(27,803,000)** |

| | 2017 | 2016 |
|---|---|---|
| **Changes in the present value of the defined benefit obligation are as follows** | | |
| Opening balance | 27,803,000 | 22,778,000 |
| Benefit Paid | (135,000) | (100,000) |
| Net expense recognised in the statement of financial performance | (645,000) | 5,125,000 |
| Total | 27,023,000 | 27,803,000 |

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

| | 2017 | 2016 |
|---|---|---|
| Current service cost | 2,947,000 | 2,701,000 |
| Interest cost | 2,676,000 | 2,202,000 |
| Actuarial (gains) losses | (6,268,000) | 222,000 |
| | **(645,000)** | **5,125,000** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 6. Employee benefit obligations (continued)

**Calculation of actuarial gains and losses**

| | | |
|---|---|---|
| Actuarial (gains) losses – Obligation | (6,268,000) | 222,000 |

**Key assumptions used**

Assumptions used at the reporting date:

| | | |
|---|---|---|
| Discount rates used | 9.02 % | 9.02 % |
| Expected increase in salaries | 7.60 % | 7.60 % |
| Expected increase in healthcare costs | 8.09 % | 8.09 % |

GRAP 25 defines the determination of the Discount rate assumption to be used as followsw
The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

| **Expected Retirement Age** | Valuation 2017 | Valuation 2016 |
|---|---|---|
| Expected Retirement Age - Female | 63 | 65 |
| Expected Retirement Age - Males | 63 | 65 |
| | - | - |

| **Sensitivity Analysis on Current-service and interest cost for the year ending 30 June 2017** | Current service cost | Interets Cost |
|---|---|---|
| Central Assumption | 2,887,000 | 2,769,000 |
| Medical Aid Inflation (+1%) | 2,838,000 | 2,950,000 |
| Medical Aid Inflation (-1%) | 2,658,000 | 2,792,000 |
| Mortality rate (+20%) | 2,590,000 | 2,710,000 |
| Mortality rate (-20%) | 2,971,000 | 3,089,000 |
| | **13,944,000** | **14,310,000** |

### 7. Inventories

| | | |
|---|---|---|
| Consumable stores | 1,953,836 | 2,463,619 |
| Maintenance materials | 9,985,214 | 14,809,585 |
| | **11,939,050** | **17,273,204** |

### 8. Receivables from exchange transactions

| | | |
|---|---|---|
| Trade debtors | 328,889 | 513,373 |

### 9. VAT receivable

| | | |
|---|---|---|
| VAT | 114,240,392 | 108,949,025 |

### 10. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---|---|---|
| Bank balances | 2,803,467 | 491,462 |
| Short-term deposits | 11,025,975 | 1,311,799 |
| | **13,829,442** | **1,803,261** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

## 10. Cash and cash equivalents (continued)

**The municipality had the following bank accounts**

| Account number / description | Bank statement balances | | | Cash book balances | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 |
| FNB: Petrol Card - 8888-8860-9290-7007 | 14,994 | 14,467 | 14,683 | 18,252 | 17,726 | 17,941 |
| FNB: Account number - 623-2792-9735 | - | 52,899 | 53,046 | - | 52,899 | 53,046 |
| FNB: Account number - 529-100-86-795 | 2,690,969 | 408,068 | 4,882,239 | 2,695,969 | 335,333 | (5,117,761) |
| Short term deposits- | 11,262,859 | 3,300,071 | 2,217,775 | 11,262,859 | 3,300,071 | 2,217,775 |
| **Total** | **13,968,822** | **3,775,505** | **7,167,743** | **13,977,080** | **3,706,029** | **(2,828,999)** |

## 11. Accumulated surplus

## 12. Unspent conditional grants and receipts

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

| | 2017 | 2016 |
|---|---|---|
| **Unspent conditional grants and receipts** | | |
| Municipal Infrastructure Grants | 9,380,912 | 81,918,390 |
| Municipal Systems Infrastructure Grants | - | 406,222 |
| WSOG | 8,637,303 | 4,899,688 |
| EPWP | 22,639 | 444,342 |
| SETA | 2,065,455 | 1,878,190 |
| RRAMS | 97 | 896,211 |
| | **20,106,406** | **90,443,043** |

## 13. Other financial liabilities

| | 2017 | 2016 |
|---|---|---|
| **At amortised cost** | | |
| DBSA | - | 1,431,320 |
| **Non-current liabilities** | | |
| At amortised cost | - | 635,014 |
| **Current liabilities** | | |
| At amortised cost | - | 796,306 |

# Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 14. Provisions

**Reconciliation of provisions - 2017**

| | Opening Balance | Additions | Total |
|---|---|---|---|
| Long service award | 19,775,000 | 3,840,000 | 23,615,000 |

**Reconciliation of provisions - 2016**

| | Opening Balance | Additions | Total |
|---|---|---|---|
| Long service award | 16,790,000 | 2,985,000 | 19,775,000 |

| | 2017 | 2016 |
|---|---|---|
| Non-current liabilities | 22,559,000 | 18,985,000 |
| Current liabilities | 1,056,000 | 790,000 |
| | **23,615,000** | **19,775,000** |

**Long Service Award**

A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential.

An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph .61.

The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

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

| | |
|---|---|
| Discount rate | 7.96% |
| Consumer Price Inflation | 6.33% |
| Normal Salary Increase | 7.33% |
| Net Effective Discount Rate | 0.59% |

| **Movements in the present value of the Defined Benefit Obligation were as follows:** | | |
|---|---|---|
| PV of the obligation as at previous valuation | 19,775,000 | 16,790,000 |
| Current service cost | 2,685,000 | 2,221,000 |
| Interest cost | 1,901,000 | 1,621,000 |
| Benefits paid | (677,296) | (838,554) |
| Acturial gain or loss | (68,704) | (18,446) |
| **Present Value of Fund Obligation at the end of the Year** | **23,615,000** | **19,775,000** |

| **The amount recognised in the Statement of Financial Position are as follows:** | | |
|---|---|---|
| Non Current Liability | 22,559,000 | 18,985,000 |
| Current liability | 1,056,000 | 790,000 |
| **Present value of unfunded obligations** | **23,615,000** | **19,775,000** |

| **The amount recognised in the Statement of Financial Performance are as follows:** | | |
|---|---|---|
| Current Cost | 2,685,000 | 2,221,000 |
| Interest Cost | 1,901,000 | 1,621,000 |
| Acturial Gains and losses | (68,704) | (18,446) |
| **Total Post-retirement Benefit included in Employee Related Costs** | **4,517,296** | **3,823,554** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

## 15. Payables from exchange transactions

| | | |
|---|---|---|
| Trade Payables | 456,979,044 | 408,214,946 |
| Retention fees | 19,074,556 | 22,584,411 |
| Leave provision | 22,140,542 | 14,858,824 |
| Suspense Control Account | 3,603,018 | 4,869,061 |
| Third party Control account | 628,265 | 11,543,853 |
| Payment received in advance | 9,744,591 | 8,421,060 |
| Bonus Accrual | 6,925,968 | - |
| Grants agreement liability | 30,000,000 | 73,474,000 |
| Unknown Deposits | 10,318 | - |
| | **549,106,302** | **543,966,155** |

## 16. Revenue

| | | |
|---|---|---|
| Insurance Claims | - | 131,870 |
| Other Revenue ( Yard connection) | 942,930 | 1,026,497 |
| Rental income | 208,000 | 185,500 |
| Sale of water | 963,220 | 958,586 |
| Other Income | 41,569 | 380,271 |
| Sundry income sewer | 118,202 | 227,141 |
| Interest received - investment | 4,784,006 | 3,023,932 |
| Government grants & subsidies | 664,202,413 | 614,847,305 |
| Other transfer revenue 1 | 255,878 | 69,594 |
| | **671,516,218** | **620,850,696** |

| | | |
|---|---|---|
| **The amount included in revenue arising from exchanges of goods or services are as follows:** | | |
| Insurance claims | - | 131,870 |
| Other Revenue (Yard Connections) | 942,930 | 1,026,497 |
| Rental income | 208,000 | 185,500 |
| Sale of water | 963,220 | 958,586 |
| Other Income | 41,569 | 380,271 |
| Sundry income sewer | 118,202 | 227,141 |
| Interest received - investment | 4,784,006 | 3,023,932 |
| | **7,057,927** | **5,933,797** |

| | | |
|---|---|---|
| **The amount included in revenue arising from non-exchange transactions is as follows:** | | |
| **Taxation revenue** | | |
| **Transfer revenue** | | |
| Government grants & subsidies | 664,202,413 | 614,847,305 |
| Other transfer revenue 1 | 255,878 | 69,594 |
| | **664,458,291** | **614,916,899** |

## 17. Other revenue

| | | |
|---|---|---|
| Insurance claims | - | 131,870 |
| Other income | 942,930 | 1,026,497 |
| Rental income - related party | 208,000 | 185,500 |
| Sale of water | 963,220 | 958,586 |
| Other income | 41,569 | 380,271 |
| Sundry income sewer | 118,202 | 227,141 |
| | **2,273,921** | **2,909,865** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 18. Investment revenue

| | | |
|---|---|---|
| **Interest revenue** | | |
| Interest : current account | 186,208 | 2,387,823 |
| Interest : Short term investments Account | 4,597,798 | 636,109 |
| | **4,784,006** | **3,023,932** |
| | - | - |
| | 4,784,006 | 3,023,932 |

# Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

## 19. Government grants and subsidies

| | | |
|---|---|---|
| **Operating grants** | | |
| Equitable share | 551,464,166 | 510,260,000 |
| SETA | 216,510 | - |
| WSOG | 262,386 | - |
| EPWP | 1,578,361 | 1,544,658 |
| Financial Management Grants | 1,460,000 | 1,325,000 |
| Management systems improvement grants | - | 523,778 |
| | **554,981,423** | **513,653,436** |
| **Capital grants** | | |
| Rural Roads Assets Management | 2,380,903 | 1,951,765 |
| Municipal Infrastructure Grants | 106,840,087 | 99,242,104 |
| | **109,220,990** | **101,193,869** |
| | 554,981,423 | 513,653,436 |
| | 109,220,990 | 101,193,869 |
| | **664,202,413** | **614,847,305** |

**Equitable Share**

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

**EPWP**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 444,342 | - |
| Current-year receipts | 1,601,000 | 1,989,000 |
| Conditions met - transferred to revenue | (1,578,361) | (1,544,658) |
| Set off | (444,342) | - |
| | **22,639** | **444,342** |

Conditions still to be met - remain liabilities (see note 12).

**Financial management grants**

| | | |
|---|---|---|
| Current-year receipts | 1,460,000 | 1,325,000 |
| Conditions met - transferred to revenue | (1,460,000) | (1,325,000) |
| | **-** | **-** |

**Management systems improvement grants**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 406,222 | 148,362 |
| Current-year receipts | - | 930,000 |
| Conditions met - transferred to revenue | - | (672,140) |
| Off Set | (406,222) | - |
| | **-** | **406,222** |

Conditions still to be met - remain liabilities (see note 12).

**Rural Roads Assets Management**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 896,212 | 531,976 |
| Current-year receipts | 2,381,000 | 2,316,000 |
| Conditions met - transferred to revenue | (2,380,903) | (1,951,764) |
| Set off | (896,212) | - |

# Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
| --- | --- | --- |

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

| | | |
| --- | --- | --- |
| | **97** | **896,212** |

Conditions still to be met - remain liabilities (see note 12).

**Municipal Infrastructure Grants**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | 81,918,390 | 120,540,841 |
| Current-year receipts | 116,221,000 | 181,160,083 |
| Conditions met - transferred to revenue | (106,840,085) | (99,242,104) |
| Off set | (81,918,390) | (120,540,430) |
| | **9,380,915** | **81,918,390** |

Conditions still to be met - remain liabilities (see note 12).

**SETA**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | 1,878,190 | 1,878,190 |
| Current-year receipts | 403,775 | - |
| Conditions met - transferred to revenue | (216,510) | - |
| | **2,065,455** | **1,878,190** |

Conditions still to be met - remain liabilities (see note 12).

Provide explanations of conditions still to be met and other relevant information.

**WSOG**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | 4,899,688 | 4,899,688 |
| Current-year receipts | 4,000,000 | - |
| Conditions met - transferred to revenue | (262,385) | - |
| | **8,637,303** | **4,899,688** |

Conditions still to be met - remain liabilities (see note 12).

Provide explanations of conditions still to be met and other relevant information.

## Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 20. Employee related costs

| | | |
|---|---|---|
| Basic | 174,844,215 | 172,128,553 |
| Holiday Shift Allowance | 10,555,368 | 9,384,964 |
| Medical aid - company contributions | 17,449,422 | 16,162,902 |
| UIF | 1,321,248 | 1,325,255 |
| Leave pay provision charge | 16,487,488 | 6,574,236 |
| Defined contribution plans | 33,221,456 | 33,034,887 |
| Overtime payments | 8,838,963 | 7,898,126 |
| 13th Cheques | 14,264,071 | 13,832,425 |
| Transport allowance (bus coupons) | 12,651,760 | 13,030,972 |
| Housing benefits and allowances | 612,485 | 622,793 |
| Standby Allowance | 8,285,462 | 7,745,411 |
| Industrial Council | 67,466 | 67,954 |
| Shift Allowance | 5,141,586 | 4,812,773 |
| Cellphone Allowance | 135,900 | 88,250 |
| Post employment Benefit plan movements | (780,000) | 5,025,000 |
| Long service award movement | 3,840,000 | 2,985,000 |
| | **306,936,890** | **294,719,501** |

**Remuneration of Acting Municipal Manager**

| | | |
|---|---|---|
| Acting Allowance | 67,446 | - |
| cellphome allowance | 1,800 | - |
| Other allowances | 22,120 | - |
| | **91,366** | **-** |

The acting municipal manager from April 2017 and is only paid the difference between the salary she earned and what the muncicipal manager at NMMDM should earn.

**Remuneration of Senior Manager : Municipal health, Fire and emergency**

| | | |
|---|---|---|
| Annual Remuneration | 847,198 | 853,743 |
| Car Allowance | 144,000 | 144,000 |
| Contributions to UIF, Medical and Pension Funds | 226,591 | 220,046 |
| Housing Allowance | 96,000 | 96,000 |
| Cellphone | 24,000 | 24,000 |
| | **1,337,789** | **1,337,789** |

The municipality has an acting Chief Financial Officer not paid by the municipality

**Remuneration of Chief Audit Executive**

| | | |
|---|---|---|
| Annual Remuneration | 576,626 | 980,226 |
| Car Allowance | 47,950 | 82,200 |
| Contributions to UIF, Medical and Pension Funds | 103,300 | 185,362 |
| Cellphone Allowance | 10,500 | 18,000 |
| Housing allowance | 42,000 | 72,000 |
| | **780,376** | **1,337,788** |

**Acting Chief Financial Officer**

| | | |
|---|---|---|
| Annual Remuneration | - | - |
| Car Allowance | - | - |
| Performance Bonuses | - | - |
| Contributions to UIF, Medical and Pension Funds | - | - |
| Other | - | - |

| Figures in Rand | 2017 | 2016 |
|---|---|---|

**20. Employee related costs (continued)**

| | | |
|---|---|---|
| Other | - | - |
| Other | - | - |
| | **-** | **-** |

The acting Chief Financial Officer has been seconded from the provincial treasury to assist the municipality with financial management. He was appointed from 1st May 2016.

**21. Remuneration of councillors**

| | | |
|---|---|---|
| Executive Mayor | 831,073 | 834,271 |
| Speaker | 640,039 | 785,867 |
| Councillors | 4,778,152 | 8,524,354 |
| Other Allowances | 2,149,060 | 3,106,617 |
| | **8,398,324** | **13,251,109** |

**22. General expenses**

| | | |
|---|---|---|
| Advertising | 99,000 | 597,008 |
| Assessment rates & municipal charges | 342,172 | 38,558 |
| Auditors remuneration | 6,529,162 | 1,674,334 |
| Bank charges | 298,271 | 1,362,211 |
| Consulting and professional fees | 8,443,181 | 10,834,038 |
| Insurance | 36,355 | 1,186,750 |
| Imbizo | 242,425 | 268,293 |
| Disaster Management systems | - | 314,660 |
| Marketing | 52,375 | 114,997 |
| Promotions and sponsorships | - | 240,150 |
| Skills development levies | 5,377,183 | 5,681,358 |
| Fuel and oil | 2,509,061 | 3,388,723 |
| Subsistance and travelling | 337,860 | 1,121,949 |
| Postage and courier | 1,680 | 2,816 |
| Printing and stationery | 1,584,352 | 2,511,152 |
| Protective clothing | - | 258,151 |
| Recruitment cost | 215,674 | 62,058 |
| Vehicle Licenses | 500,870 | 346,950 |
| Subscriptions and membership fees | - | 108,560 |
| Telephone and fax | 6,068,381 | 6,025,768 |
| Training | 270,721 | 6,800 |
| Job Evaluation | - | 20,000 |
| Electricity | 2,576,100 | 3,144,763 |
| Sector Development Programme | - | 47,650 |
| Health Services | - | 233,000 |
| Labour relations | 1,093,997 | 562,993 |
| Uniforms | - | 2,708,672 |
| Tourism development | - | 517,466 |
| Special projects | 24,000 | 591,893 |
| Internet and satelite services | 847 | 8,756 |
| Yard connection programme | 1,869,776 | 6,203,426 |
| Refreshments | - | 26,700 |
| Rates and taxes | 1,506,137 | 1,924,329 |
| IDP Review | 31,000 | - |
| Detergents | 91,552 | 128,431 |
| Strategic Planning | - | 48,405 |
| Other expenses | 44,500 | 61,151 |
| Loss on disposal of PPE | 113,111 | - |
| | **40,259,743** | **52,372,919** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

## 23. Auditors' remuneration

| | | |
|---|---|---|
| Fees | 6,529,162 | 1,674,334 |

## 24. Cash generated from operations

| | | |
|---|---|---|
| Deficit | (224,391,037) | (371,715,706) |
| **Adjustments for:** | | |
| Depreciation and amortisation | 384,823,828 | 334,912,968 |
| Movements in retirement benefit assets and liabilities | (780,000) | 5,025,000 |
| Movements in provisions | 3,840,000 | 2,985,000 |
| **Changes in working capital:** | | |
| Inventories | 5,334,154 | 822,568 |
| Receivables from exchange transactions | 184,484 | 258,672 |
| Payables from exchange transactions | 5,140,147 | (5,180,975) |
| VAT | (5,291,367) | 155,938,263 |
| Unspent conditional grants and receipts | (70,336,637) | 90,443,043 |
| | **98,523,572** | **213,488,833** |

## 25. Financial instruments disclosure

**Categories of financial instruments**

**2017**

**Financial assets**

| | At cost | Total |
|---|---|---|
| Trade and other receivables from exchange transactions | 328,889 | 328,889 |
| Cash and cash equivalents | 14,054,315 | 14,054,315 |
| | **14,383,204** | **14,383,204** |

**Financial liabilities**

| | At cost | Total |
|---|---|---|
| Trade and other payables from exchange transactions | 551,442,643 | 551,442,643 |

**2016**

**Financial assets**

| | At cost | Total |
|---|---|---|
| Trade and other receivables from exchange transactions | 513,373 | 513,373 |
| Cash and cash equivalents | 3,791,533 | 3,791,533 |
| | **4,304,906** | **4,304,906** |

**Financial liabilities**

| | At cost | Total |
|---|---|---|
| Trade and other payables from exchange transactions | 560,177,788 | 560,177,788 |

# Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
| --- | --- | --- |

### 26. Commitments

**Authorised capital expenditure**

| | | |
| --- | --- | --- |
| **Already contracted for but not provided for** | | |
| • Property, plant and equipment | 320,434,181 | 406,857,006 |
| **Total capital commitments** | | |
| Already contracted for but not provided for | 320,434,181 | 406,857,006 |

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

### 27. Contingencies

Litigation is in the process against the municipality relating to a dispute with a competitor who alleges that the municipality has infringed patents and is seeking damages of R -. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the case should be resolved within the next two years.

Should the action be successful the municipality does have insurance cover to cover litigation costs and claims. The total cover extended by the current policy amounts to R -.

The municipality has offered termination benefits to all of its employees to encourage early retirement. The municipality has finalised and agreed, with the trade unions, the terms and conditions of the plan. The plan has been implements and will continue for the next nine months. Management are uncertain about the number of employees who will accept the offer. If all employees take the offer the potential financial effect would approximately be R -.

There is no reimbursement from any third parties for potential obligations of the municipality.

An associate is been sued for violation of copyrights. The municipality's share of the potential claim amounts to R -. The associates lawyers and management are of the opinion that the law suit will be successful but are unable to reliably determine the amount of penalties and damages payable.

The municipality is severally liable for the liabilities of its associate. The associate is profitable and in currently able to meet all of it present obligations.

Litigation is in the process against the a competitor relating to a dispute whereby the competitor has infringed patents and the municipality is seeking damages of R -. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the case should be resolved within the next two years.

Unfilled conditions and other contingencies attaching to government grants related to agricultural activity.

[State the fact, that information of contingent liabilities and assets are required but not disclosed because it is not practicable to do so].

| Figures in Rand | 2017 | 2016 |
|---|---|---|

**27. Contingencies (continued)**

| | | |
|---|---|---|
| **Monarch Security VS the Municipality** | **R 4 451 008** | **R 4 451 008** |

This matter started in 2009 wherein the municipality is being sued for termination of services. The service provider wants to compel the municipality to reinstate their services. Attorneys have served documentation with regard to irregular proceedings.

| | | |
|---|---|---|
| **JY GUTTA VS the Municiplaity** | **R 2 235 379** | **R 2 235 379** |

Matter started in 2011, summons were received where the Municipality is being sued for damage of property due to the fire during a cleaning campaign commemorating Mandela day. The matter is currently under dispute and the necessary pleading have been filed**.**

| | | |
|---|---|---|
| **Portia Semenya VS the Municiplaity** | **R 3 000 000** | **R 3 000  000** |

The matter started in 2012 wherein Ms Semenya is suing the municipality for defamation of character. The municipality appointed external attorneys to defend the matter on its behalf. Currently the matter is still pending.

| | | |
|---|---|---|
| **Gwabeni VS the Municipality** | **R 2 021 184** | **R 2 021 184** |

Matter started in 2011 wherein Mr Gwabeni sued the municipality for outstanding term payment and legal fees (for alleged criminal case).

| | | |
|---|---|---|
| **Mapitsi Civil works VS the Municipality** | **R 583 722** | **R 583 722** |

Letter of demand was issued the claim was based on the retention amount of R583 722  a due deligence assesment was conducted to determine whether the contractor has sucessfully completed the scope of work.  An opinion was rendered by our attorneys who made a  recommendation of  settling the matter.

| | | |
|---|---|---|
| **Iwyze Valuables Insurance** | **R 125 038** | **R 125 038** |

We received letter of demand from  Mr Keebine's attorneys, due to damages on his vehicle when there were riots in Lehurutshe. Our investigation confirmed that riots were as a result of Lehurutshe residents demanding services from the municipality. The matter has been stagnant.

| | | |
|---|---|---|
| **M Santo VS the Municiplaity** | **R 5 731** | **R 5 731** |

Mr Santo was suing the municipality for damages caused to his vehicle due to the pothole on 1st Street. Currently he was advised to seek three (3) quotations and expert affidavit explaining the extent of the damages.

| | | |
|---|---|---|
| **Balemi Civils VS the Municipality** | **R 2 867 984** | **R 2 867 984** |

Summons have been received, notice of intention to be served and filed. Second defendant entered a notice to remove causes of complaint.

| | | |
|---|---|---|
| **Microzone CC VS the Muncipality** | **R 871 850** | **R 871 850** |

A letter of demand was received and the matter was referred to our attorney to defend on the municipality's behalf. Currently the matter is still pending.

| | | |
|---|---|---|
| **Swathi Civils VS the Municipality** | **R 1 563 657** | **R 1 563 657** |

Swati Civils sought to give summary judgement application against the municipality for damages due to termination of contract. The matter has been removed from the court roll by agreement between parties.

| | | |
|---|---|---|
| **Paul Rabotapi VS the Municipality** | **R 15 553** | **R 15 553** |

**L**etter of demand was received by the municipality claiming damages caused to Mr Rabotapi's vehicle which was damaged

| Figures in Rand | 2017 | 2016 |
| --- | --- | --- |

**27. Contingencies (continued)**
due to the pothole on 1st Street. No further pleadings have been filed. The matter is stagnant.

| | | |
| --- | --- | --- |
| **Batlhalefi Projects** | **R 17 722 191** | **R 17 722 191** |

The municipality received invoices for work purported to be done by Batlhalefi Projects on First Street. Due to the payments exceeding the allocated budget the Municipality appointed a forensic investigator to investigate into the allegations (First Street-Queckwin Projects). The matter has since been stagnant.

| | | |
| --- | --- | --- |
| **Geldenhyus et al *** | **R 201 341 200** | **R 201 341 200** |

There was a court order compelling the Municipality to comply with conditions of the water license agreement for the abstraction of water from the Geldenhyus underground water supply on their farm. Geldenhyus was awarded a costs order which followed the court order. The dispute went into arbitration and Geldenhyus is claiming an amount of R 201 341 200. The arbitration is still pending. On the other hand the Municipality have approached the High Court of South Africa in Mahikeng to nullify the license agreement. The matter is still pending.

| | | |
| --- | --- | --- |
| **Neo Mphala Utility Services*** | **R 4 209 510** | **R 4 209 510** |

There was a court order compelling the Municipality to comply with conditions of the water license agreement for the abstraction of water from the Geldenhyus underground water supply on their farm. Geldenhyus was awarded a costs order which followed the court order. The dispute went into arbitration and Geldenhyus is claiming an amount of R 201 341 200. The arbitration is still pending. On the other hand the Municipality have approached the High Court of South Africa in Mahikeng to nullify the license agreement. The matter is still pendin

| | | |
| --- | --- | --- |
| **Women In Supply** | **R 16 800 000** | **R 16 800 000** |

The matter started July 2012 after the municipality instructed the service provider to remove its vehicles from the construction site as per site instruction number 2638. A notice of motion was served and subsiquently the matter was referred to our external attorneys to defend and currently record of proceedings has been filed by our Attorney.

| | | |
| --- | --- | --- |
| **Mowana consultants** | **R 5 886 215** | **R 5 886 215** |

The matter started in June 2012 wherein the municipality was served with summons claiming the amount of R5 886 214 for professional services for the sanitation project. This projects was for the construction of VIP toilets for Lomanyaneng and Majemantsho.

| | | |
| --- | --- | --- |
| **La Dira Trading 03 CC** | **R 756 925** | **R 756 925** |

We received summons and we have appointed the attorneys who have filed an intention to defend. Currently the attorneys acting on behalf of La Dira Trading 03 CC filed an application for summary judgement, our attorneys then filed an application to oppose same with a possibility of having a counter claim.

| | | |
| --- | --- | --- |
| **Panchia** | **R 51 080** | **R 51 080** |

We received letter of demand from the attorneys of Ms Panchia alleging monies owed for damages on the leased property. The matter is still pending and attended to.

| | | |
| --- | --- | --- |
| **Mvula Trust VS the Municiplaity *** | **R 821 702** | **R 821 702** |

Mvula Trust instituted a clain against the Municipality in respect of services they alleged to have rendered for Phase 2 and Phase 3 of the School Sanitation Project. They claimed the sum of R 821 702 at the rate of 15.5% per annum tempora morae until date of payment thereof. The Municipality paid Mvula Trust an amount totalling R 1 625 927 in respect of Phase 1 of the project which was made in error due to Mvula Trust's misrepresentation.

| | | |
| --- | --- | --- |
| A**tlie Projects VS the Municipality** | **R 3 196 312** | **R 3 196 312** |

The Municipality was sued in January 2013 for wrongful termination of contract. The matter is currently under arbitration

# Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

**27. Contingencies (continued)**

| | | |
|---|---|---|
| **NMMDM // NEP and Mosegedi Engineers** | **R 4 639 457.11** | **R4 639 457.11** |

NEP and Mosegedi Engineers as a JV were appointed on the 06th of December 2007 to render professional services concerning the construction of Ottosdal New Waste Water Treatment Plant. The Joint Venture became responsible for cost of items omitted on the design and bill of quantities as in the tender document. These items made a total sum of R 4 639 457.11, vat exclusive.

| | | |
|---|---|---|
| **NMMDM // Tshenolo Resources JV** | **R 11 228 653** | **R 11 228 653** |

In November 2013 a claim for termination of contract and claim of additional payments made in respect of the tender was identified by the NMMDM. Consultation were held for purpose of drawing up Summons in order to claim the amount owed to the NMMDM. Summons were prepared and the matter is pending for further particulars.

| | | |
|---|---|---|
| **Lele & Tshidi Construction // NMMDM** | **R98 100.33** | **R 98 100.33** |

On the 12 February 2015 the NMMDM received a Letter of Demand from Van Veijeren Attorneys for outstanding payment of R98 100.33 for Supply of Material.
According to the Letter of Demand an agreement was entered into for direct payment with the client in terms whereof the contractor agreed that the NMMDM would make a direct payment to their client for the supply of material on contract number NMMDM 07/08/05

| | | |
|---|---|---|
| **Al Jaza Investments (Pty) Ltd // NMMDM** | **R 2 408 531** | **R 2 408 531** |

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 27. Contingencies (continued)

The NMMDM on 12 February 2015 received a letter from Ditsobotla Local Municipality informing that Attorneys for Al Jara Investments (Pty) Ltd issued a letter of demand that their property was damaged by Fire as the results of the NMMDMs failure to provide adequate water tanker and equipment to oust of the fire and personnel didn't have sufficient protective clothing as a results their client suffered damages to the tune of R 2 408 530.77.

| | | |
|---|---|---|
| **Civils 2000 // NMMDM** | **R9 799 612** | **R9 799 612** |

Civils 2000 was appointed to complete Bodibe Ward 17 project which is subject to dispute but the then administration (Mr R.G Nair) appointed Civils 2000 and signed the so called tripartite agreement that they will secure funds for the project but the said tripartite agreement is not signed by all parties to the dispute.

| | | |
|---|---|---|
| **Incledon (Pty) Ltd// NMMDM** | **R108 000.00** | **R108 000.00** |

The NMMDM procured Lele and Tshidi to provide water pipes at Magokgwana, Miga and Tlapeng. Lele and Tshidi sub contracted Incledon (Pty) Ltd. Lele and Tshidi and Incledon entered into a direct payment agreement where the NMMDM will directly pay the amount to Incledon. The Cession Agreement did not include the NMMDM as signator and the NMMDM paid Lele and Tshidi. Incledon since claimed the monies from NMMDM and we are not in agreement. .

| | | |
|---|---|---|
| **Bagorosi Projects (Pty) Ltd// NMMD** | **R3 387 950.21** | **R 3 387 950.21** |

Bagorosi was contracted to supply bulk water at Dinokana, Water reticulation at Tlhabologo, Mahikeng Rural Sanitation Phase I, II, III as consultants. Subsequent to the completion of the projects they invoiced the NMM**DM. d**

| | | |
|---|---|---|
| **Fresh Harvest (Pty) Ltd//NMMDM** | **R700 000.00** | **R700 000.00** |

Fresh Harvest conducted a feasibility study for the establishment of Fresh Harvest Produce in Mahikeng and Zeerust. Subsequent to the submission of the report they invoiced the NMMDM as a result R 700 000.00 remained unpaid and claimed. The NMMDM is defending the claim.
.

| | | |
|---|---|---|
| **O.A Moseki//NMMDM** | **R 235 000.00** | **R 235 000.00** |

A Municipal Fleet collided with O.A Moseki's car and a settlement agreement was reached with the NMMDM's insurance which was in full and final settlement of his claim. He has since abandoned the clai**m.**

| | | |
|---|---|---|
| **Kebothale Mafoko Projects // NMMDM** | **R 480 000.00** | **R 480 000.00** |

On the 20th of August 2013 Kebothale and the NMMDM entered into an oral agreement in terms of which a tender was awarded to Kebothale. The said tender contract was for the lease of construction and plant hire equipment. Part of the equipment leased by the NMMDM for the Ratlou Local Municipality was a Bell Backhoe Loader which was kept by the RLM from November 2013 – 24 June 2014. On 22 June 2014 the RLM did not avail the leased and equipment and as a result Kebothale quantified his loss as R 480 000.00. The NMMDM is defending the matter. .

| | | |
|---|---|---|
| **Olorato Projects // NMMDM** | **R 420 000.00** | **R 420 000.00** |

Olorato Projects was procured by the NMMDM to provide water installation material for yard connections as and when required. They procured the material and the NMMDM did not pay in time

| | | |
|---|---|---|
| **Bokgabane Initiative project//NMMDM** | **R 190 000.00** | **R 190 000.00** |

Bokgabane Initiative / Distant Star were invited to conduct to make a presentation for sewing project. Whilst waiting for the NMMDM to approve the order, they went on their own to conduct workshops in Tswaing and subsequently claim the R 190

**27. Contingencies (continued)**
000.00 which is disputed.

| | | |
| --- | --- | --- |
| **M.J Khumalo // NMMDM** | **R 0** | **R 0** |

The claimant alleges that in 2007 the then Executive Mayor, Mr Mohulatsi got involved with him in an accident then he sustained injuries, he is now claiming for pains and suffering.

| | | |
| --- | --- | --- |
| **Dr S.F January // NMMDM** | **R0** | **R 0** |

Dr January alleges that there are outstanding invoices due and payable to him for services rendered for securing accommodation for Municipal Officials.

| | | |
| --- | --- | --- |
| **Q.S Sam and Associates // NMMDM** | **R 1 800 000.00** | **R 1 800 000.00** |

Q.S. Sam and Associates averse that the municipality is owing him outstanding invoices for services rendered. Documents are still being collated to ascertain the authenticity of the claim.

| | | |
| --- | --- | --- |
| **Max Prof (PTY) Ltd // NMMDM** | **R0** | **R1087991.68** |

Max Prof (Pty) Ltd were appointed to assist the municipality in claiming tax returns from SARS, they allege that in 2012 their services were unduly terminated.

| | | |
| --- | --- | --- |
| **Violet Tshetlho // NMMDM** | **R 15 000.00** | **R 15 000.00** |

The claimant alleges that her vehicle sustained damages as a result of the potholes in Makgobistad/ Bray road.

| | | |
| --- | --- | --- |
| **Tebogo. Shomolekae // NMMDM** | **R 15 000.00** | **R 15 000.00** |

The claimant alleges that her vehicle sustained damages as a result of the potholes in Makgobistad/ Bray road.

| | | |
| --- | --- | --- |
| **Bagale (Pty) Ltd** | **R 261 887.13** | **R 261 887.13** |

Bagale Consulting have instituted a claim for outstanding invoices due and payable for work done in respect of First Street.

| | | |
| --- | --- | --- |
| **Bigen Africa Consulting Engineers (Pty) Ltd** | **R1 345 184-51** | **R1 345 184-51** |

We received summons from Bigen Africa, requesting payment for R1 345 184-51 for services rendered.
The outstanding payment was made after having entered into a Settlement Agreement with Bigen Africa and the matter is now resolved.

| | | |
| --- | --- | --- |
| **Bigen Africa Consulting Engineers (Pty) Ltd** | **R 475 635.73** | **R 475 635.73** |

Bigen Africa allege to have provided Professional Services for the Waste Water Treatment Plants around Mahikeng and Ramotshere Moiloa Local Municipalities. They claim that two invoice/s remain unpaid by the NMMDM.

| | | |
| --- | --- | --- |
| **Distant Star Trading 55 CC (02/2016)** | **R190 000** | **R190 000** |

Bokgabane Initiative / Distant Star were invited to conduct to make a presentation for sewing project. Whilst waiting for the NMMDM to approve the order, they went on their own to conduct workshops in Tswaing and subsequently claim the R 190 000.00 which is disputed.

| | | |
| --- | --- | --- |
| **Florida Nshwe** | **R24 513.73** | **R24 513.73** |

The matter is still ongoing and it is at pleading stage.

| | | |
| --- | --- | --- |
| **Dr Maduo** | **R986 385.87** | **R986 385.87** |

Dr, Maduo’s employment contract was terminated following the end of term of the then Executive Mayor- T Gwabeni he is now claiming the contractual amount and argues that he was on a fixed term contract and his appointment was not linked to

| Figures in Rand | 2017 | 2016 |
|---|---|---|

**27. Contingencies (continued)**
that of the Executive Mayor.

| | | |
|---|---|---|
| **Civils 2000 (PTY) Ltd** | **R0** | **R 0** |

The NMMDM terminated and unsolicited bid where Civils 2000 was appointed. Civils 2000 issued and intention to litigate against the NMMDM and nothing has happened since.

| | | |
|---|---|---|
| **Pelken CC** | **R 938 858.28** | **R 938 858.28** |

We received a notice requesting an appointment of an Arbitrator in order to facilitate alternative dispute resolution mechanism in this matter regarding the alleged outstanding interest from the capital amount from the farm that was purchased by the municipality from Mr Derik Pelser

| | | |
|---|---|---|
| **Sunrise Electrical Wholesalers** | **R359 115.93** | **R359 115.93** |

Sunrise instituted a claim for outstanding payment due and payable for construction of First Street and Regional Office Building.

| | | |
|---|---|---|
| **SAL Construction** | **R0** | **R 0** |

Sal Construction instituted a claim for outstanding payments due and payable for construction of high fence at Zeerust were servitudes are located.

| | | |
|---|---|---|
| **Selenane (Pty) Ltd** | **R0** | **R 0** |

Non-payment of invoices for services rendered in respect of the following projects: Lokaleng, Tlapeng, Itekeng, Verdwaal and Mahikeng and Mmabatho Waste Water

| | | |
|---|---|---|
| **Marce Projects (Pty) Ltd** | **R0** | **R0** |

Marce Projects was appointed to procure Fire Station Wear. They were able to procure the Station Wear yet payment is due to them. They have been paid R 1 500 000.00 thus far and the outstanding amount is R1 587 886.12

| | | |
|---|---|---|
| **Maqs Construction and Plant Hire** | **R3 674 890.79** | **R3 674 890.79** |

Maqs Construction and Plant Hire is undergoing liquidation and the Liquidator has approached the NMMDM for payment of all outstanding invoices owed to Maqs.

| | | |
|---|---|---|
| **Sharon’s Maintenance and Electrical** | **R 2 227 898.21** | **R 2 227 898.21** |

Sharon’s Maintenance and Electrical was appointed by the Ratlou Local Municipality for the Upgrading of Bulk Water Supply – Logageng. The RLM and NMMDM entered into a Memorandum of Understanding for the project and had budgeted R 10 000 000.00.Sharon’s Maintenance and Electrical CC has now approached the NMMDM for the outstanding payment amount. The NMMDM has already paid the budgeted amount

| | | |
|---|---|---|
| **Ad Hoc Deputy Sheriff** | **R 533 595.16** | **R 533 595.16** |

The Ad Hoc Deputy Sheriff appointed in May 2016 by the High Court was responsible for the attachment and removal of the NMMDM Assets for matters relating to the Azranite matter. He is now claiming the costs incurred by him due to the attachment and removal of the NMMDM Assets.

| | | |
|---|---|---|
| **Eric Louw Attorneys** | **R171 178.8** | **R171 178.8** |

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 27. Contingencies (continued)

Eric Louw Attorneys issued Summons against the NMMDM claiming that on or around 2009 they were appointed by the then Executive Mayor – Themba Gwabeni as delegated on an urgent basis to set aside the decision the Provincial Government on the invocation of section 139 (1) (b) of the Constitution of the Republic of South Africa, 1996.

| | | |
|---|---|---|
| **NMMDM // Mr W Molokele** | **R1 200 000** | **R1 200 000** |

CCMA determined compensation in line with the lra act 66 of 1995 and r1 200 000 was awarded although the municipality was successful in the review and the matter is back at the CCMA

| | | |
|---|---|---|
| **NMMDM // Metswamere & 1 Other** | **R 937 554** | **R0** |

Cost of Living Adjustment which was determined by CCMA amount of R937 554.

| | | |
|---|---|---|
| **NMMDM // Molefe & 3 Others** | **R 1 918 000** | **R0** |

Unfair Lobour Practice: The SALGBC Determine Compensation in line with the LRA 66 of 1995 R1 918 000

| | | |
|---|---|---|
| **NMMDM // Motshabi & 5 Others** | **R2 274 000** | **R0** |

Unfair Lobour Practice: The SALGBC Determine Compensation in line with the LRA 66 of 1995 R2 274 000

| | | |
|---|---|---|
| **NMMDM // N Mahomed** | **R 760 000** | **R 0** |

Unfair Lobour Practice: The SALGBC Determine Compensation in line with the LRA 66 of 1995 R760 000

**Contingent assets**

| | | |
|---|---|---|
| **Bagorosi Civil Projects and Engineer**s | **R 691 849.58** | **R 691 849.58** |

The Municipality is suing for additional made in respect of the tender awarded to Bagorosi Civil Projects and Engineers.

| | | |
|---|---|---|
| **Khethwayo Construction** | **R 5 498 433.8** | **R 5 498 433.8** |

The Municipality is suing for additional made in respect of the tender awarded to Khethwayo amounting to R5 498 433.80.

| | | |
|---|---|---|
| **Mvula Trust VS the Municipality** | **R1 625 927.99** | **R1 625 927.99** |

Mvula Trust accepted the offer to build toilets in respect of the School Sanitation Project. It was further an express and/or implied term that Mvula Trust would be paid for toilets completed as confirmed monthly by submitting a certificate and invoice.Mvula Trust failed to complete any of the toilets, however they submitted invoices totalling R 1 625 927.99 in respect of phase 1 of the project. The Municipality paid Mvula Trust an amount totalling R 1 625 927.99 in respect of phase 1 of the project which was made in error due to Mvula Trust's misrepresentation.

| | | |
|---|---|---|
| **NMMDM // Khethwayo Construction** | **R 2 100 000.00** | **R 2 100 000.00** |

In November 2013 a claim for termination of contract and claim additional payments made in respect of a tender was identified by the NMMDM.An opinion was submitted on the 3rd of December 2013 by the Municipal Attorney.It is advised by the Municipal attorney that Khethwayo Construction be put in terms.
This matter was supposed to have been before the court on 27 November 2014 but was removed by agreement between the parties to apply for submission of further particulars.

| | | |
|---|---|---|
| **Chicano Grills (Pty) Ltd//NMMDM** | **R0** | **R0** |

An interim order was issued against the municipality barring municipal health workers from issuing non-compliance or notices against Chicano Grills for health hazard reasons. Subsequent to the interim order having been ordered, the final order set aside the interim order and costs were awarded in our favour.

| Figures in Rand | 2017 | 2016 |
|---|---|---|

**27. Contingencies (continued)**

| | | |
|---|---|---|
| **Beyond Build Construction Jv** | **R2 000 000.00** | **R 2 000 000.00** |

The municipality is claiming for poor workmanship and leaving of site**.**

| | | |
|---|---|---|
| **NMMDM // Fire and Emergency Vehicles PTY LTD** | **R0** | **R0** |

Fire and Emergency Vehicle Pty (Ltd) was appointed during or about February 2010 to Supply Fire and Emergency vehicles and equipment to the NMMDM. As a consequence, the NMMDM effected payment to the tune of R 1 476 278.50. Fire and Emergency Vehicle Pty (Ltd) failed to deliver one of the five Fire and Emergency Vehicles that were pre-paid for. The Municipal Manager tried to negotiate for the delivery of the Fire and Emergency vehicle but to no avail. The Municipal Manager terminated the agreement between the NMMDM and Fire and Emergency Vehicles Pty (Ltd) that was entered into during or about February 2010.

| | | |
|---|---|---|
| **J. Venter** | **R0** | **R0** |

Johan Venter is alleging to be representing farmers within the district as a result of the drought that the country is experiencing, he’s requesting access to information for all the boreholes.He approached the Zeerust Magistrates Court to enforce his right and his application was dismissed with costs.
The matter is closed

**28. Prior-year adjustments**

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

**Statement of financial position**

# Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

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

**2016**

| | Note | As previously reported | Correction of error | Restated |
|---|---|---|---|---|
| Inventories | | 29,663,324 | (12,390,120) | 17,273,204 |
| Accounts receivables | | 6,445,525 | (5,932,152) | 513,373 |
| Vat receivable | | 156,432,804 | (951,154) | 155,481,650 |
| Cash and cash equivalents | | 2,277,505 | (474,244) | 1,803,261 |
| Property plant and Equipments | | 3,647,684,293 | 23,116,366 | 3,670,800,659 |
| Trade Creditors | | 435,646,960 | (31,150,155) | 404,496,805 |
| Retention | | 72,660,242 | (50,075,831) | 22,584,411 |
| Leave Accrual | | 11,342,236 | 3,516,588 | 14,858,824 |
| Suspense control account | | 7,589,125 | (2,720,064) | 4,869,061 |
| Payments received in advance | | (2,619,201) | 11,040,261 | 8,421,060 |
| Other Creditors | | (53,349,225) | 53,349,225 | - |
| Bonus Accrual | | 5,771,077 | 1,839,616 | 7,610,693 |
| Grant agreement liability | | - | 73,474,000 | 73,474,000 |
| Unspent conditional grants | | 106,423,058 | (15,980,015) | 90,443,043 |
| Premier legacy grants | | 6,931,206 | (6,931,206) | - |
| Disaster management grants | | 481,431 | (481,431) | - |
| Rural Roads Assessment management | | 679,237 | (679,237) | - |
| WSOG | | 5,192,736 | (293,048) | 4,899,688 |
| Bucket eradication | | 2,831,076 | (2,831,076) | - |
| MWIG | | 4,764,017 | (4,764,017) | - |
| | | **4,446,847,426** | **30,682,306** | **4,477,529,732** |

**Statement of finanical performance**

**2016**

| | Note | As previously reported | Correction of error | Restated |
|---|---|---|---|---|
| Other revenue | | 190,270 | 836,227 | 1,026,497 |
| Government grants and subsidies | | 688,321,305 | (73,474,000) | 614,847,305 |
| Employee Cost | | 301,118,991 | 1,211,204 | 302,330,195 |
| Repairs and Maintenance | | 64,193,053 | (11,999) | 64,181,054 |
| Contracted Services | | 399,555,108 | (178,591,837) | 220,963,271 |
| General Expenditure | | 56,799,878 | (4,426,959) | 52,372,919 |
| **Surplus for the year** | | **1,510,178,605** | **(254,457,364)** | **1,255,721,241** |

**Statement of financial position Adjustments**

1. **Inventories** - There was an adjustments to the opening balane of the 2015-2016 financial year of R 12 390 130 that could not agree with the working and the inventory counts as of 30 June 2016. This adjustment was to reconcile back the inventory count made at the end of 2016 financial year with movements for the year.

2. **Accounts receivables** - Accounts receivable adjustment of R5 932 152 was as a result of duplicated journals in an attempt to adjust the account receivables that were initially recognised wrongly .

3. **Vat receivable** -reversed the Vat receivables incorrectly posted journals .

4. **Cash and cash equivalents** - Cash and cash equivalent reduced by R 474 244 in the prior year because of reconciling the petrol card account that has remained to be unreconciled from older years.

5. **Property plant and Equipments** - Reassement of the R1 value assets.

## Notes to the Annual Financial Statements

**28. Prior-year adjustments (continued)**

6. **Trade Creditors** - Trade creditors reduced by R31 150 155 in the prior years after all creditors were reconciled from older years. This adjustment was necessary to be processed in the years that the reconciling items were sufficiently supported and hence the prior period was then effected in the prior years .

6. **Retentions** - Retentions decreased by R 50 075 831 as there were significant difference in the recorded retensions that could not be sufficiently supported. The new retension register was prepared that took into account all registered projects that has been capitalised as iether WIP or completed projects for the past financial years .

7. **Leave Accrual** - Leave Accrual calculations has increased with R 3 516 588 as a result of double counted journals that reduced the leave accrual by R 7 033 176 .

8. **Suspense control account** - Suspense control account adjustment was necessary to adjust with R 2 720 064 in year that transaction and journals were last recorded in these accounts .

9. **Unallocated deposits** - Unallocated deposits had a debit balance of R 2 619 201 as a result of double counted journals and this has been rectified by means of reversing one journal and properly accounting for the movement that occured in the past year.

10. **Other Creditors** - Other creditors was had a negative balance creditor of R 53 349 225 that was wrongly captured . The account had take-on balances from the older financial system that could not be sufficiently substanttiated.

11. **Bonus Accrual** - There was an error of bonus calculations in the prior year. The raw data used in the calculations was not correct and could not be substantiated by sufficient and appropriate audit evidence.

12. **Grant agreement liability**- The municipality had unspent conditional grants that could not be cash backed in the past financila years and the unspent conditional grants was then later on off set against equitable share. However, the municipality was unable to run its operations as normal and this was when the municipality and national treasury has grants agreeement engagement .National treasury had an agreement with the municipality to release portions of the withheld equitable share and included in the agreement was a payment plan.

13. **Unspent conditional grants**-

The municipality obtained 3rd party confirmations for monies owed by the municipality to donors and confirmations were received in favour of the municipality. The following are the grants that where then adjusted as per the confirmations.

-Premier Legacy Grants
-Disaster management grants
-Rural Roads Assessment management
-WSOG
-Bucket Eradication Grants
-MWIG

# Notes to the Annual Financial Statements

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

**Statement of financial performance adjustments**

1.**Other revenue**-Other revenue contains revenue recognisition for the yard connections that was understated in the past financial year.

2.**Government grants and subsidies**- Agreement with national treasury was reached to postpone the repayment of unpent conditional grants.

3.**Employee Cost** - The difference in employee related cost was as a result of miscalculated bonus with wrong data. The adjustment was necessary as the data available now for the prior year could be verified.

4.**Repairs and Maintenance**- Within repairs and maintenance accounts, there was reallocation adjustment of assets purchased in the prior years.

5.**Contracted services**- Sedibeng water expenditure for the past financial years was only accounted for in the past financial year in its entirety. The adjustment was as necessary to show effects of transactions that took place in various financial periods.

6.**General Expenditure**

There following accounts on were effected in the prior year due to different reasons

**-Bank charges**- The municipality has not been able to reconcile and account for the petrol card since it was first issued to the mayor in 2012. Management took a decision to reconcile the petrol card for all the other periods and all transactions were then accounted for in the years on which the transations occured.

-**Consulting and professional fees** - through an intense reconciliations of creditors, some of the transactions that were paid to attorney's trust accounts relating to creditors were identified to have related to specific creditors and had to be adjusted as such.

-**Fuel and oil** - The municipality has not been able to reconcile and account for the petrol card since it was first issued to the mayor in 2012. Management took a decision to reconcile the petrol card for all the other periods and all transactions were then accounted for in the years on which the transations occured

-**Other expenses** - There was a reallocation of mechanical work tools from expenses to assets in the prior

### 29. Risk management

**Financial risk management**

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

The municipality’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The municipality’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality’s financial performance.

The municipality’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality’s financial performance. The accounting officer provides written principles in the form of policies to manage for overall risk management, as those covering specific areas, such as liquidity risk, credit risk and market risk

### 29. Risk management (continued)

**Liquidity risk**

.

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

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.

Cash flow forecasts are prepared and adequate cashflows primarily obtained from government grants are utilised through the approved budget and monitored via monthly cashflow assessments.

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

Financial liabilities that are exposed to liquidity risk at year end were as follows:

| **Financial Liabilities** | **2017** | **2016** |
|---|---|---|
| Other financial liabilities | | R 1 431 320.00 |
| Payables from exchange transactions | R 546 769 671.00 | R 551 576 848.00 |
| Employee benefit obligation | R 27 023 000.00 | R 27 803 000.00 |
| Unspent conditional grants and receipts | R 20 106 406.00 | R 90 443 043.00 |
| Provisions | R 23 615 000.00 | R 19 775 000.00 |
| | **R 617 514 077.00** | **R 691 029 211.00** |

These balances represent the maximum exposure to liquidity risk.

The ageing trade and trade payables as disclosed in note 15 to the financial statements are indicated below as following:

| **Trade Payables Age** | **90+ Days** | **60 Days** | **30 Days** | **Current** | **Balance** |
|---|---|---|---|---|---|
| Total | R 405 522 058.28 | R 36 238 272.04 | R 6 929 653.18 | R 5 952 431.50 | R 454 642 415.00 |

These creditors materially impact the day to day running of the municipality and enable the municipality the municipality to execute its service delivery mandate.

**Credit risk**

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

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

### 29. Risk management (continued)

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

| Financial Assets | 2017 | 2016 |
| --- | --- | --- |
| Cash and cash equivalents | R 13 829 442 | R 1 803 261 |
| Receivables from exchange transactions | R 328 889 | R 513 373 |
| Other financial assets | R 236 884 | R 1 988 273 |
| | R 14 395 215 | R 4 304 907 |

These balances represent the maximum exposure to credit risk.

**Interest Rate Risk**

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

**Other price risk**

Potential concentrations of credit risk and interest rate risk consist mainly of notice deposit investments, receivables from exchange transactions, other financial assets, short-term investment deposits and bank and cash balances. The municipality limits its counterparty exposures from its money market investment operations by only dealing with well-established financial institutions of high credit standing

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

**Credit risk**

### 30. 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.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

Ngaka Modiri Molema District Municipality has incurred a deficit of R 224 391 037 during the year ended 30 June 2017 and, as of that date, the Municipality's current liabilities exceeded its current assets by R 430 083 935; with a current asset ratio of ¼.

Management believes that the Going Concern assumption is appropriate, however based on the financial liabilities and background we understand that a material uncertainty might exist at year-end, due to the above-mentioned liquidity ratio and the current year's deficit.

Management is however confident that the financial situation of the municipality will be turned-around in the next financial year due to the following facts and activities implemented to address the Going Concern Risk.

Total assets exceed total liabilities by R2 894 016 402 including a debt to asset ratio of 18%;

The municipality has further adopted the 2017/18 – 2019/2020 MTEF budget which outlines the measures taken to turn-around the financial fortunes of the municipality, resulting in liquidity being achieved by the year ended 2020; and

# Notes to the Annual Financial Statements

Figures in Rand

### 30. Going concern (continued)

The liquidity risk is minimised as over 98% of the municipality's funding is obtained through government grants.

### 31. Events after the reporting date

Management of the municipality has no events after reporting date that came into their attention as at the time of issue of annual financial statements..

### 32. Unauthorised expenditure

| | | |
|---|---|---|
| Opening Balance | 1,562,125,979 | 1,282,117,309 |
| Additions Unauthorised Expenditure | 142,066,586 | 280,008,670 |
| | **1,704,192,565** | **1,562,125,979** |

### 33. Fruitless and wasteful expenditure

| | | |
|---|---|---|
| Opening Balance | 5,584,273 | 3,424,567 |
| Additional fruitless and wastefull expenditure current year | 4,396,407 | 2,159,706 |
| | **9,980,680** | **5,584,273** |

### 34. Irregular expenditure

| | | |
|---|---|---|
| Opening balance | 659,716,803 | 401,568,043 |
| Prior year correction | 3,734,206 | 258,148,760 |
| Irregular expenditure - current year | 164,389,535 | - |
| Add: Irregular expenditure identified in the current year relating to prior years | 659,716,803 | - |
| | **1,487,557,347** | **659,716,803** |

| | | |
|---|---|---|
| **Details of irregular expenditure ( Qoutes)** | | |
| Non Submission of Tax Clearance Certificate | 173,700 | 50,049,533 |
| Non Submission of Declaration of interest | 434,511 | 6,107,929 |
| Non Adherence to 3 written price qoutations | 423,323 | 18,422,038 |
| | **1,031,534** | **74,579,500** |

| | | |
|---|---|---|
| **Assessment for tender** | | |
| Limitation of full and complete tender documentation | 114,805,365 | 195,894,305 |
| No evaluation & adjudication reports | 24,287,781 | 37,570,176 |
| Procument process not followed | 16,244,442 | 4,261,807 |
| Advert available and it is less than 30 days | 8,020,413 | 7,636,840 |
| | **163,358,001** | **245,363,128** |

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

**Contributions to organised local government**

**Audit fees**

**PAYE and UIF**

**Pension and Medical Aid Deductions**

# Notes to the Annual Financial Statements

Figures in Rand

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

**VAT**

| | | |
|---|---|---|
| VAT receivable | 114,240,392 | 108,949,025 |

VAT output payables and VAT input receivables are shown in note .

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

### 36. Repairs and maitenance

| | | |
|---|---|---|
| Maintenance :District roads | 3,196,458 | 2,205,549 |
| Maintenance : Water | 21,298,047 | 55,948,640 |
| Maintenance : Other | 1,866,607 | 6,026,865 |
| | **26,361,112** | **64,181,054** |

### 37. Contracted Services

| | | |
|---|---|---|
| Security Services | 11,640,817 | 8,631,765 |
| Draught Relief | 39,084,430 | 138,663,701 |
| Disludging | 3,567,353 | 21,449,279 |
| Other Contractors | 612,662 | 4,651,574 |
| Bulk Water Purchases | 68,482,380 | 47,566,952 |
| | **123,387,642** | **220,963,271** |

### 38. Budget differences

**Material differences between budget and actual amounts**

The excess of actual expenditure over the final budget of 15% (25% over approved budget) for the Health function was due to expenditures above the level approved by legislative action in response to the earthquake. There were no other material differences between the final budget and the actual amounts.

### 38. Budget differences (continued)

**A**-The increase was caused due yard connection services provided to the community

**B**-Percentage difference not material

**C**-The increase was caused due to metered connections provided to the community

**D**-The increase was caused due to sale of  de-sludging services provided to the community

E-The increase was caused due to sale of water tokens.

F-The increase was caused due to an unexpected donation

**G**-Management implemented an cashflow management and investment strategy, by utilising higher yielding investment

**H**-Revenue decreased due to inability to procure inventory, as a result yard connection revenue decreased

**II-**Percentage difference not material

**J**-Percentage difference not material

**K**-Percentage difference not material

**L** -MMC's were reduced in numbers, resulting in a cost reduction relating to remuneration-MMC's were reduced in numbers, resulting in a cost reduction relating to remuneration

**M-**Underbudgeting of Depreciation due to mis-assessment of asset base during formulation of budget

**N**-The underspending was to the fact that no new loan facilities were entered into

**O**-The underspending was due to cash constraints that did not allow the municipality to spend as envisioned

P-Lease rental budget assumption were not correctly considered, hence the overspending.

Q-Repairs and maintenance assumption were not correctly considered, hence the overspending

R- Overspending of contracted services, relating to Sedibeng Water Debt and draught relief

S-Underspending is due to financial constraints which did not allow the municipality to transfer funds to local municipalities within the district

T- Underspending is due to financial constraints which did not allow the municipality to spend on general expenditure (austerity measures).

**Differences between budget and actual amounts basis of preparation and presentation**

The budget and the accounting bases differ. The annual financial statements for the whole-of-government are prepared on the accrual basis using a classification based on the nature of expenses in the statement of financial performance. The annual financial statements are consolidated statements that include all controlled entities, including government business enterprises for the fiscal period from  to . The annual financial statements differ from the budget, which is approved on the cash basis and which deals only with the general government sector that excludes government business enterprises and certain other non-market government entities and activities.

The amounts in the annual financial statements were recast from the accrual basis to the cash basis and reclassified by functional classification to be on the same basis as the final approved budget. In addition, adjustments to amounts in the annual financial statements for timing differences associated with the continuing appropriation and differences in the entities covered (government business enterprises) were made to express the actual amounts on a comparable basis to the final approved budget. The amounts of these adjustments are identified in the following table.