



Ngwathe Local Municipality  
Financial statements  
for the year ended 30 June 2015

# Ngwathe Local Municipality

(Registration number FS203)

Financial Statements for the year ended 30 June 2015

## General Information

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### Legal form of entity

Category C municipality in terms of Section 1 of Local Government's Municipal Structures Act, 1998 (Act 117 of 1998) read with Section 15 (1) of the Constitution of the Republic of South Africa (Act 108 of 1996)

### Nature of business and principal activities

The primary function of the municipality is to provide basic services ie water, electricity, sewerage, water and sanitation to the Ngwathe jurisdiction.

### Mayoral committee

Executive Mayor

Councillors

Mochela MJ  
Ndayi PR (Speaker)  
Mandelstam GP (Exco member)  
Mopedi NP (Exco member)  
Schoonwinkel A (Exco member)  
Serathi M (Exco member)  
Vandisi TL (Exco member)  
Bocibo C  
Choni SP  
De Beer VE  
De Jager A  
Hlapane ML  
Khumalo KJ  
Masooa MJ  
Mbele AM  
Mehlo LR  
Modiko DV  
Mofokeng MD  
Mofokeng ML  
Mofokeng MM  
Molaphene PM  
Molotsane RJ  
Motsumi ME  
Mvulane L  
Ndlovu NA  
Oliphant AM  
Radebe DM  
Ramabitsa IM  
Ranthako MC  
Roos J  
Scholtz F  
Seabi IM  
Sehume AM  
Serfontein C  
Sothoane CE  
Swart AP  
Tladi LL  
Van Der Merwe PP  
Vermaak SM

### Grading of local authority

Category C

# Ngwathe Local Municipality

(Registration number FS203)

Financial Statements for the year ended 30 June 2015

## General Information

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<b>Chief Finance Officer (CFO)</b>	Samyala N
<b>Accounting Officer</b>	Kamolane LD
<b>Registered office</b>	12 Liebenbergs Trek Parys 9585
<b>Business address</b>	12 Liebenbergs Trek 9585
<b>Postal address</b>	PO Box 359 Parys 9585
<b>Bankers</b>	ABSA
<b>Auditors</b>	Auditor-General of South Africa
<b>Attorneys</b>	Utilise attorneys in Municipal area (Detail list available at municipal offices)
<b>Contact details</b>	Chief Financial Officer - 056 816 2700 Municipal Manager - 056 816 2700

# Ngwathe Local Municipality

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The reports and statements set out below comprise the financial statements presented to the Council:

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### 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)

# Ngwathe Local Municipality

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## Accounting Officer's Responsibilities and Approval

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The accounting officer is required by the Companies Act, 71 of 2008, to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the 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 financial statements and was given unrestricted access to all financial records and related data.

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The financial statements set out on pages 8 to 89, which have been prepared on the going concern basis, were approved by the accounting officer on 30 October 2015 and were signed on its behalf by:

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**Kamolane LD**  
**Municipal Manager**

# Ngwathe Local Municipality

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Financial Statements for the year ended 30 June 2015

## Audit Committee Report

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We are pleased to present our report for the financial year ended 30 June 2015.

### Audit committee members and attendance

All members of the Audit Committee are independent, with no interest in the management or conduct of the business of the Municipality.

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year 4 meetings were held.

Name of member	Number of meetings attended
Mokhesi N (Chairperson)	4 (Apologies - 0)
Mogadime JV	3 (Apologies - 1)
Mahlatsi MNG	3 (Apologies - 1)
Mohlahlo ME	1 (Apologies - 3)

### Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

### The effectiveness of internal control

The system of controls is designed to provide cost effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. In line with the MFMA, Internal Audit provides the Audit Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Audit, the Audit Report on the Annual Financial Statements and management letter of the Auditor-General. It was noted that there were instances of weaknesses in Internal Financial controls.

### Compliance with applicable laws and regulations

The laws and regulations are simply designed to serves as a guide line to ensure a secure sound and sustainable management of the financial affairs of the municipalities. In terms of section 60 (a) and (b)(i)(ii) of the Municipal Finance Management Act, the Municipal Manager of a municipality is the accounting officer, of the municipality for the purposes of this Act, and, as accounting officer, must-

- (a) exercise the functions and powers assigned to an accounting officer in terms of this Act; and
- (b) provide guidance and advice on compliance with this Act to -
  - (i) the political structures, political office-bearers and officials of the municipality; and
  - (ii) any municipal entity under the role or shared control of the municipality.

From the various reports of the Internal Audit, the Audit Report on the Annual Financial Statements and management letter of the Auditor-General, it was noted that there were several instances of weaknesses in material non-compliance regarding financial matters, financial management and other related matters.

### Evaluation of financial statements

The audit committee has:

- reviewed and discussed the audited financial statements to be included in the annual report, with the Auditor-General and the accounting officer;
- reviewed the Auditor-General of South Africa's management report and management's response thereto;
- reviewed changes in accounting policies and practices;
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

The audit committee concur with and accept the Auditor-General of South Africa's report the financial statements, and are of the opinion that the audited financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

# Ngwathe Local Municipality

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Financial Statements for the year ended 30 June 2015

## Audit Committee Report

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### Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits

The Audit Committee had an opportunity to assess the capacity of staff in the Internal Audit Unit and its functionality to fulfil its duties according to the approved annual internal audit plan. For the period under review the Audit Committee approved the following documents for Internal Audit Unit to effectively function:

- (a) Audit Committee Charter;
- (b) Internal Audit Charter; and
- (c) Risk based audit plan and annual internal audit program for the 2014-15 financial year (for compliance with section 165 of the Municipal Finance Management Act).

For the financial year under review, the Internal Audit audited areas according to the Approved Annual Internal Audit Program.

Regrettably issues raised in the reports have not been sufficiently addressed by management. Repeat findings are indicative of lack of commitment by management to address audit findings, as also evidenced by non-responsiveness to the approved action plan.

On the date of issue of these reports, relevant and affected departments were requested by the internal audit unit to submit action plans with comments on the date specified.

Well along the Internal Audit Unit reminded the relevant and affected departments to submit the following information requested, as it was needed for the compilation of a comprehensive report to the Municipal Manager, on the implementation of corrective steps with regard to the findings of the relevant internal audit reports:

- (a) corrective steps already implemented (if any);
- (b) planned corrective steps to be implemented and the envisaged target dates for implementation; and
- (c) relevant manager or official responsible for implementation.

Up-to-date no comments or action plans have been received for the following reports issued:

- (a) Loss control;
- (b) IT Governance;
- (c) Payroll; and
- (d) Expenditure.

In addition to the above, management do not respond to the findings raised by the Internal Audit Unit within the prescribed time. The AG has also raised a finding in this regard.

### Auditor-General of South Africa

The committee noted with regret that the Auditor-General issued a disclaimer of opinion on the financial statements of the municipality for 2013-14 financial year. The committee further report that it unconditionally accepted the report of the Auditor-General for the financial year ended 30 June 2014.

During the meetings held in 2014/15 financial year, the Committee had an opportunity to discuss Auditor-General audit outcome on the Annual Financial Statement of 2013-14 financial year, and also monitored the progress made in terms of addressing the findings raised.

### Risk Management

The Audit Committee had an opportunity to discuss risk assessment report and risk treatment report for the current financial year.

### Adequacy of financial reporting

Audit Committee assessed section 52 ((d) required by the MFMA) reports (financial information) for the period under review, as well as revenue strategic on revenue collection presented by management.

## **Audit Committee Report**

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**Chairperson of the Audit Committee**

**Date:** \_\_\_\_\_



# Ngwathe Local Municipality

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Financial Statements for the year ended 30 June 2015

## Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	2015	2014 Restated*
<b>Assets</b>			
Current Assets			
Sundry receivables	8	1,706,915	956,202
Inventories	9	556,894	554,214
Receivables from exchange transactions	10	39,173,751	29,669,962
Receivables from non-exchange transactions	11	18,425,133	14,317,774
Cash and cash equivalents	12	3,085,216	7,975,595
VAT receivable	50	14,998,639	9,295,689
		<b>77,946,548</b>	<b>62,769,436</b>
Non-Current Assets			
Investment property	3	154,580,185	144,477,963
Property, plant and equipment	4	807,493,310	814,334,895
Intangible assets	5	1,321,200	1,321,200
Other financial assets	6	1,501,113	1,418,147
		<b>964,895,808</b>	<b>961,552,205</b>
<b>Total Assets</b>		<b>1,042,842,356</b>	<b>1,024,321,641</b>
<b>Liabilities</b>			
Current Liabilities			
Employee benefit obligation	7	2,843,350	2,720,000
Bank overdraft	12	-	1,136,551
Finance lease obligation	13	562,917	1,209,441
Unspent conditional grants and receipts	14	76,179	5,638,482
Other financial liabilities	15	2,181,704	2,329,700
Provisions	16	191,279,221	55,359,913
Payables from exchange transactions	17	545,186,928	376,407,873
Consumer deposits	18	5,513,114	4,951,657
		<b>747,643,413</b>	<b>449,753,617</b>
Non-Current Liabilities			
Employee benefit obligation	7	66,499,650	65,420,000
Finance lease obligation	13	634,330	1,197,247
Other financial liabilities	15	4,122,303	6,304,008
		<b>71,256,283</b>	<b>72,921,255</b>
<b>Total Liabilities</b>		<b>818,899,696</b>	<b>522,674,872</b>
<b>Net Assets</b>		<b>223,942,660</b>	<b>501,646,769</b>
Accumulated surplus		223,942,657	501,646,769

\* See Note 43

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## Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	19	253,121,413	196,888,305
Rental of facilities and equipment	20	1,434,161	1,339,553
Other income	22	2,070,781	1,313,675
Dividends received	23	16,334	4,481
Interest received	23	35,031,681	28,446,191
<b>Total revenue from exchange transactions</b>		<b>291,674,370</b>	<b>227,992,205</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Fines	21	905,529	828,143
Property rates	24	61,423,391	42,923,015
<b>Transfer revenue</b>			
Government grants & subsidies	25	192,320,420	238,623,561
<b>Total revenue from non-exchange transactions</b>		<b>254,649,340</b>	<b>282,374,719</b>
<b>Total revenue</b>		<b>546,323,710</b>	<b>510,366,924</b>
<b>Expenditure</b>			
Employee related costs	26	(179,107,842)	(173,160,077)
Remuneration of councillors	27	(10,710,779)	(10,176,405)
Depreciation and amortisation	28	(72,048,380)	(72,149,303)
Impairment of assets	29	(62,688,575)	(248,827,539)
Finance costs	30	(58,711,408)	(37,923,456)
Bad debts written off	31	(65,369,626)	(43,330,759)
Bulk purchases	32	(162,495,214)	(149,277,187)
Contracted services	33	(2,520,046)	(4,480,361)
General Expenses	34	(199,683,159)	(109,990,040)
Repairs and maintenance	35	(26,854,071)	(27,068,714)
<b>Total expenditure</b>		<b>(840,189,100)</b>	<b>(876,383,841)</b>
<b>Operating deficit</b>		<b>(293,865,390)</b>	<b>(366,016,917)</b>
Property plant and equipment losses/write-offs	4	(1,113,245)	(883,326)
Actuarial gains/losses	7	7,152,000	8,638,000
Inventories losses/write-downs	9	(70,323)	(10,970)
Fair value adjustments	36	10,192,835	148,424
		<b>16,161,267</b>	<b>7,892,128</b>
<b>Deficit for the year</b>		<b>(277,704,123)</b>	<b>(358,124,789)</b>

\* See Note 43

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## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
<b>Balance at 01 July 2013</b>	<b>859,771,558</b>	<b>859,771,558</b>
Changes in net assets		
Surplus for the year	(358,124,789)	(358,124,789)
Total changes	(358,124,789)	(358,124,789)
<b>Restated* Balance at 01 July 2014</b>	<b>501,646,779</b>	<b>501,646,779</b>
Changes in net assets		
Surplus for the year	(277,704,122)	(277,704,122)
Total changes	(277,704,122)	(277,704,122)
<b>Balance at 30 June 2015</b>	<b>223,942,657</b>	<b>223,942,657</b>
Note(s)		

\* See Note 43

# Ngwathe Local Municipality

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## Cash Flow Statement

Figures in Rand	Note(s)	2015	2014 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services (exchange and non-exchange)		241,921,173	261,727,632
Grants		186,758,117	208,629,929
Interest income		35,031,681	28,446,191
		<u>463,710,971</u>	<u>498,803,752</u>
<b>Payments</b>			
Employee costs		(182,525,265)	(176,404,817)
Suppliers		(158,855,590)	(260,287,712)
Finance costs		(54,626,029)	(37,486,782)
		<u>(396,006,884)</u>	<u>(474,179,311)</u>
<b>Net cash flows from operating activities</b>	38	<b><u>67,704,087</u></b>	<b><u>24,624,441</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(66,722,561)	(58,497,241)
Property plant and equipment written off	3	(1,113,245)	(883,326)
Net movement in other financial assets		(82,966)	(177,969)
		<u>(67,918,772)</u>	<u>(59,558,536)</u>
<b>Cash flows from financing activities</b>			
Finance lease payments		(1,209,443)	2,406,688
Net movement in other financial liabilities		(2,329,700)	(7,286,154)
		<u>(3,539,143)</u>	<u>(4,879,466)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(3,753,828)</b>	<b>(39,813,561)</b>
Cash and cash equivalents at the beginning of the year		6,839,044	46,652,605
<b>Cash and cash equivalents at the end of the year</b>	12	<b><u>3,085,216</u></b>	<b><u>6,839,044</u></b>

\* See Note 43

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## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	257,873,000	100,000	<b>257,973,000</b>	253,121,413	<b>(4,851,587)</b>	< 10%
Rental of facilities and equipment	1,420,000	531,000	<b>1,951,000</b>	1,434,161	<b>(516,839)</b>	Note 51 - X1
Dividends received	-	-	-	16,334	<b>16,334</b>	Note 51 - X2
Other income	3,074,000	831,000	<b>3,905,000</b>	2,070,781	<b>(1,834,219)</b>	Note 51 - X3
Interest received	5,257,000	(1,000,000)	<b>4,257,000</b>	35,031,681	<b>30,774,681</b>	Note 51 - X4
<b>Total revenue from exchange transactions</b>	<b>267,624,000</b>	<b>462,000</b>	<b>268,086,000</b>	<b>291,674,370</b>	<b>23,588,370</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	51,297,000	-	<b>51,297,000</b>	61,423,391	<b>10,126,391</b>	Note 51 - X5
<b>Transfer revenue</b>						
Government grants & subsidies	208,646,000	2,371,000	<b>211,017,000</b>	192,320,420	<b>(18,696,580)</b>	< 10%
Fines	1,001,000	400,000	<b>1,401,000</b>	905,529	<b>(495,471)</b>	Note 51 - X6
<b>Total revenue from non-exchange transactions</b>	<b>260,944,000</b>	<b>2,771,000</b>	<b>263,715,000</b>	<b>254,649,340</b>	<b>(9,065,660)</b>	
<b>Total revenue</b>	<b>528,568,000</b>	<b>3,233,000</b>	<b>531,801,000</b>	<b>546,323,710</b>	<b>14,522,710</b>	
<b>Expenditure</b>						
Employee cost	(138,928,000)	(6,216,000)	<b>(145,144,000)</b>	(179,107,842)	<b>(33,963,842)</b>	Note 51 - X7
Remuneration of councillors	(10,442,000)	-	<b>(10,442,000)</b>	(10,710,779)	<b>(268,779)</b>	< 10%
Depreciation and amortisation	(95,000,000)	-	<b>(95,000,000)</b>	(72,048,380)	<b>22,951,620</b>	Note 51 - X8
Impairment loss/ Reversal of impairments	-	-	-	(62,688,575)	<b>(62,688,575)</b>	Note 51 - X9
Finance costs	(3,000,000)	-	<b>(3,000,000)</b>	(58,711,408)	<b>(55,711,408)</b>	Note 51 - X10
Bad debts written off	(40,000,000)	-	<b>(40,000,000)</b>	(65,369,626)	<b>(25,369,626)</b>	Note 51 - X11
Repairs and maintenance	(14,940,000)	540,000	<b>(14,400,000)</b>	(26,854,071)	<b>(12,454,071)</b>	Note 51 - X12
Bulk purchases	(173,501,000)	-	<b>(173,501,000)</b>	(162,495,214)	<b>11,005,786</b>	< 10%
Contracted Services	(15,300,000)	(480,000)	<b>(15,780,000)</b>	(2,520,046)	<b>13,259,954</b>	Note 51 - X13
General Expenses	(96,350,000)	6,156,000	<b>(90,194,000)</b>	(199,683,157)	<b>(109,489,157)</b>	Note 51 - X14
<b>Total expenditure</b>	<b>(587,461,000)</b>	<b>-</b>	<b>(587,461,000)</b>	<b>(840,189,098)</b>	<b>(252,728,098)</b>	
<b>Operating deficit</b>	<b>(58,893,000)</b>	<b>3,233,000</b>	<b>(55,660,000)</b>	<b>(293,865,388)</b>	<b>(238,205,388)</b>	
Loss on disposal of assets and liabilities	-	-	-	(1,113,245)	<b>(1,113,245)</b>	Note 51 - X15
Fair value adjustments	-	-	-	10,192,835	<b>10,192,835</b>	Note 51 - X16
Actuarial gains/losses	-	-	-	7,152,000	<b>7,152,000</b>	Note 51 - X17
Inventories losses/write-downs	-	-	-	(70,323)	<b>(70,323)</b>	Note 51 - X18
	-	-	-	<b>16,161,267</b>	<b>16,161,267</b>	
<b>Deficit before taxation</b>	<b>(58,893,000)</b>	<b>3,233,000</b>	<b>(55,660,000)</b>	<b>(277,704,121)</b>	<b>(222,044,121)</b>	

# Ngwathe Local Municipality

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Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>(58,893,000)</b>	<b>3,233,000</b>	<b>(55,660,000)</b>	<b>(277,704,121)</b>	<b>(222,044,121)</b>	

# Ngwathe Local Municipality

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Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1. Presentation of Financial Statements

The 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 Companies Act, 71 of 2008.

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

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

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

These accounting policies are consistent with the previous period.

#### 1.1 Presentation currency

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

#### 1.2 Going concern assumption

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

#### 1.3 Significant judgements and sources of estimation uncertainty

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

Significant judgements include:

##### Receivables

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

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

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

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

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

#### Impairment testing

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

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

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

#### Useful lives of property, plant and equipment

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

#### Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

#### Effective interest rate

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

#### Allowance for impairment

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

### 1.4 Investment property

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

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



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### 1.4 Investment property (continued)

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

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

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

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

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

#### Fair value

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

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

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

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

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

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

### 1.5 Property, plant and equipment

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

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

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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

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.

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

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

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

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

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

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Item	Depreciation method	Average useful life
Airport	Straight line	15 to 20 years
Buildings	Straight line	20 to 50 years
IT equipment	Straight line	3 to 6 years
Furniture and fixtures	Straight line	6 to 10 years
Infrastructure	Straight line	3 to 100 years
Land	Straight line	n/a
Motor Vehicles	Straight line	3 to 20 years
Office equipment	Straight line	3 to 6 years
Plant and machinery	Straight line	5 to 15 years

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

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

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 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.

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

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.

### 1.6 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

### 1.7 Intangible assets

An intangible asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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

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

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### 1.7 Intangible assets (continued)

After initial recognition, intangible assets are carried at revalued amount, being fair value at the date of revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that at the reporting date the carrying amount of the asset does not differ materially from its fair value.

Any increase in the carrying amount of an intangible asset, as a result of a revaluation, is recognised in surplus or deficit in the current period. 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 the carrying amount of an intangible asset, as a result of a revaluation, is recognised in surplus or deficit in the current period.

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.

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

Item	Useful life
Servitudes	Indefinite

Intangible assets are derecognised:

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

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

### 1.8 Financial instruments

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

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 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.

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### 1.8 Financial instruments (continued)

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 of three types of risk: currency risk, interest rate risk and other price risk.

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

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

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

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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.

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### 1.8 Financial instruments (continued)

#### Classification

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

<b>Class</b>	<b>Category</b>
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value and at amortised cost
Sundry receivables	Financial asset measured at amortised cost

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

<b>Class</b>	<b>Category</b>
Other financial liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Provisions	Financial liability measured at fair value
Retirement benefit obligation	Financial liability measured at fair value

#### 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.

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.

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### 1.8 Financial instruments (continued)

#### 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.

#### Fair value measurement considerations

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

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

#### Gains and losses

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

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

#### Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

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### 1.8 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.

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

##### Financial liabilities

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

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

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

### 1.9 Tax

#### Value added tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1)(a) of the VAT act in respect of the supply of goods and services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT act or are scoped out of for VAT purposes. The municipality accounts for VAT on a monthly basis.

#### 1.10 Leases

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

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



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### 1.10 Leases (continued)

#### Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

#### Finance leases - lessee

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

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

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

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

#### Operating leases - lessor

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

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

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

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

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

#### Operating leases - lessee

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

### 1.11 Inventories

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

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

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

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

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

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.

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### 1.11 Inventories (continued)

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

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

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

### 1.12 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

#### Identification

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

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

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

#### Value in use

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

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

#### Discount rate

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

#### Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

# Ngwathe Local Municipality

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## Accounting Policies

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

#### Cash-generating units

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

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

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

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

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

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

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

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

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

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

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## Accounting Policies

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

#### Reversal of impairment loss

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

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

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

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

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

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

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

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

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

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

#### Identification

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

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

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

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Financial Statements for the year ended 30 June 2015

## Accounting Policies

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

#### Value in use

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

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

#### Depreciated replacement cost approach

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

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

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

#### Reversal of an impairment loss

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

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

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

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

### 1.14 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

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## Accounting Policies

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### 1.15 Employee benefits

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

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

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

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

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

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

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

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

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

### Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

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Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.15 Employee benefits (continued)

#### 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.

#### Multi-employer plans and/or State plans and/or Composite social security programmes

The entity classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the entity accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the entity account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the entity account for the plan as if it was a defined contribution plan.

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

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

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

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

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

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Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.15 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.

### 1.16 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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.



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## Accounting Policies

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### 1.16 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 41.

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.

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## Accounting Policies

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### 1.16 Provisions and contingencies (continued)

#### Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.12 and 1.13.

If the related asset is measured using the revaluation model:

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

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

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

### 1.17 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

### 1.18 Revenue from exchange transactions

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

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Financial Statements for the year ended 30 June 2015

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### 1.18 Revenue from exchange transactions (continued)

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

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

#### Measurement

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

#### Sale of goods

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

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

#### Rendering of services

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

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

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

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

#### Interest and dividends

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

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

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

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

### 1.19 Revenue from non-exchange transactions

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

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

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

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

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

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

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.

#### Taxes

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

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

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

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

#### Transfers

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

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

#### Unspent conditional grants and receipts

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

#### Fines

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

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

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

#### Consumer deposits

Consumer deposits are subsequently recognised in accordance with the accounting policy of Trade and other payables.

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

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

#### Services in-kind

Services in-kind are not recognised.

### 1.20 Investment income

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

### 1.21 Borrowing costs

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

### 1.22 Comparative figures

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

### 1.23 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.

# Ngwathe Local Municipality

(Registration number FS203)

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.24 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.

### 1.25 Irregular expenditure

Irregular expenditure as defined in section 32 of the MFMA 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.

### 1.26 Budget information

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

The approved budget covers the fiscal period from 2014/07/01 to 2015/06/30.

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

Comparative information is not required.

# Ngwathe Local Municipality

(Registration number FS203)

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.27 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.

### 1.28 Events after reporting date

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

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

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

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

### 1.29 Grants in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

# Ngwathe Local Municipality

(Registration number FS203)

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand

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### 2. New standards and interpretations

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

No new standards of GRAP became effective for the first time during the 30 June 2015 year end.

#### 2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 1 January 2015:

##### **GRAP 105: Transfers of functions between entities under common control**

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 January 2015.

The municipality expects to adopt the standard for the first time in the 2016 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

##### **GRAP 106: Transfers of functions between entities not under common control**

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 January 2015.

The municipality expects to adopt the standard for the first time in the 2016 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

##### **GRAP 107: Mergers**

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.



# Ngwathe Local Municipality

(Registration number FS203)

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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

The effective date of the standard is for years beginning on or after 01 January 2015.

The municipality expects to adopt the standard for the first time in the 2016 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

### 2.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published, but an effective date have not yet been gazetted by the Minister of Finance:

#### GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;

# Ngwathe Local Municipality

(Registration number FS203)

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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

- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The impact of this standard is currently being assessed.

#### GRAP32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

#### GRAP108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

### 3. Investment property

	2015			2014		
	Cost / Valuation	Accumulated impairment	Carrying value	Cost / Valuation	Accumulated impairment	Carrying value
Investment property	154,580,185	-	154,580,185	144,477,963	-	144,477,963

# Ngwathe Local Municipality

(Registration number FS203)

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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### 3. Investment property (continued)

#### Reconciliation of investment property - 2015

	Opening balance	Fair value adjustments	Disposals	Total
Investment property	144,477,963	10,112,722	(10,500)	154,580,185

#### Reconciliation of investment property - 2014

	Opening balance	Total
Investment property	144,477,963	144,477,963

#### Details of investment property

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

#### Details of valuation

The effective date of the valuation was 01 July 2014. The valuations were performed by an independent valuer, Mr Arthur Lelosa, of Manna Holdings. Manna Holdings are not connected to the municipality and have recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use.

### 4. Property, plant and equipment

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	29,908,297	-	29,908,297	29,908,297	-	29,908,297
Buildings	191,003,891	(67,964,193)	123,039,698	191,155,449	(59,470,584)	131,684,865
Plant and machinery	3,295,105	(2,426,869)	868,236	3,273,930	(2,117,519)	1,156,411
Furniture and fixtures	9,731,315	(8,806,283)	925,032	9,703,903	(8,056,198)	1,647,705
Motor vehicles	22,349,267	(16,828,611)	5,520,656	21,224,803	(14,624,563)	6,600,240
Office equipment	1,439,842	(1,004,489)	435,353	1,421,917	(866,858)	555,059
IT equipment	3,946,940	(3,097,153)	849,787	3,999,711	(2,739,851)	1,259,860
Infrastructure	958,963,417	(466,894,762)	492,068,655	947,151,050	(406,847,452)	540,303,598
Work in progress	153,877,596	-	153,877,596	101,218,860	-	101,218,860
<b>Total</b>	<b>1,374,515,670</b>	<b>(567,022,360)</b>	<b>807,493,310</b>	<b>1,309,057,920</b>	<b>(494,723,025)</b>	<b>814,334,895</b>

# Ngwathe Local Municipality

(Registration number FS203)

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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

#### Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	WIP transfer to infrastructure	Write-off	Depreciation	Impairment loss	Total
Land	29,908,297	-	-	-	-	-	29,908,297
Buildings	131,684,865	-	-	-	(8,493,609)	(151,558)	123,039,69
Plant and machinery	1,156,410	205,429	-	(184,247)	(309,356)	-	868,23
Furniture and fixtures	1,647,705	58,107	-	(30,695)	(739,478)	(10,607)	925,03
Motor vehicles	6,600,240	1,565,222	-	(440,757)	(1,984,342)	(219,707)	5,520,65
Office equipment	555,058	31,173	-	(13,247)	(137,631)	-	435,35
IT equipment	1,259,860	391,527	-	(444,299)	(336,661)	(20,641)	849,78
Infrastructure	540,303,598	185,991	11,626,376	-	(60,047,310)	-	492,068,65
Work in progress	101,218,860	64,285,112	(11,626,376)	-	-	-	153,877,59
	<b>814,334,893</b>	<b>66,722,561</b>	<b>-</b>	<b>(1,113,245)</b>	<b>(72,048,387)</b>	<b>(402,513)</b>	<b>807,493,30</b>

#### Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	WIP transfer to infrastructure	Write-off	Depreciation	Total
Land	29,908,297	-	-	-	-	29,908,297
Buildings	140,180,662	-	-	-	(8,495,797)	131,684,865
Plant and machinery	1,340,666	546,391	-	(423,728)	(306,919)	1,156,410
Furniture and fixtures	2,022,553	768,358	-	(8,392)	(1,134,814)	1,647,705
Motor vehicles	8,716,807	-	-	-	(2,116,567)	6,600,240
Office equipment	310,142	384,556	-	-	(139,640)	555,058
IT equipment	1,240,749	964,022	-	(451,206)	(493,705)	1,259,860
Infrastructure	577,020,437	284,499	22,460,521	-	(59,461,859)	540,303,598
Work in progress	68,129,966	55,549,415	(22,460,521)	-	-	101,218,860
	<b>828,870,279</b>	<b>58,497,241</b>	<b>-</b>	<b>(883,326)</b>	<b>(72,149,301)</b>	<b>814,334,893</b>

#### Pledged as security

None of the Property, plant and equipment were pledged as security.

#### Assets subject to finance lease (Net carrying amount)

Motor vehicles	1,228,773	1,982,410
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#### Reconciliation of Work-in-Progress 2015

	Infrastructure work in progress	Total
Opening balance	101,218,860	101,218,860
Additions/capital expenditure	64,285,112	64,285,112
Transferred to completed items	(11,626,376)	(11,626,376)
	<b>153,877,596</b>	<b>153,877,596</b>

# Ngwathe Local Municipality

(Registration number FS203)

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand 2015 2014

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

#### Reconciliation of Work-in-Progress 2014

	Infrastructure work in progress	Total
Opening balance	68,129,966	68,129,966
Additions/capital expenditure	55,549,415	55,549,415
Transferred to completed items	(22,460,521)	(22,460,521)
	<b>101,218,860</b>	<b>101,218,860</b>

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.

### 5. Intangible assets

	2015			2014		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Servitudes	1,321,200	-	1,321,200	1,321,200	-	1,321,200

#### Reconciliation of intangible assets - 2015

	Opening balance	Total
Servitudes	1,321,200	1,321,200

#### Reconciliation of intangible assets - 2014

	Opening balance	Total
Servitudes	1,321,200	1,321,200

#### Details of valuation

The effective date of the valuation was 01 July 2014. The valuations were performed by an independent valuer, Mr Arthur Lelosa, of Manna Holdings. Manna Holdings are not connected to the municipality and have recent experience in location and category of the intangible assets being valued.

The valuation was based on open market value for existing use.

These assumptions are based on current market conditions.

The carrying value of the valued assets could not be determined due to a lack of supporting documentation prior to 1 July 2007.

### 6. Other financial assets

#### Designated at fair value

Sanlam shares	443,284	412,614
6 682 shares @ R66.34 trading value (2014: R61.75)		

# Ngwathe Local Municipality

(Registration number FS203)

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand	2015	2014
<b>6. Other financial assets (continued)</b>		
Senwes shares	45,022	44,374
4 329 shares @ R10.40 trading value (2014: R10.25)		
Senwesbel	40,172	36,520
6 640 shares @ R6.05 trading value (2014: R5.50)		
	<b>528,478</b>	<b>493,508</b>
<b>At amortised cost</b>		
Heilbron Sanlam policy	85,679	80,628
Policy number - 11209914X8		
Heilbron Sanlam policy	359,032	338,198
Policy number - 040571573X1		
Heilbron Momentum Policy	468,308	449,052
Policy number - 091420370		
FNB Parys - 710381146801	43,858	41,769
Investment serves as guarantee for BJ Monyamara and bears interest at 5%		
FNB deposit - 71037431386	15,757	14,992
Investment serves as guarantee for Saambou Bank and bears interest at 5.1%		
	<b>972,634</b>	<b>924,639</b>
<b>Total other financial assets</b>	<b>1,501,112</b>	<b>1,418,147</b>
<b>Non-current assets</b>		
Designated at fair value	528,478	493,508
At amortised cost	972,635	924,639
	<b>1,501,113</b>	<b>1,418,147</b>
<b>Financial assets at fair value</b>		
<b>Fair value hierarchy of financial assets at fair value</b>		
For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements. The fair value hierarchy have the following levels:		
Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.		
Level 2 applies inputs other than quoted prices that are observable for the assets either directly (i.e. as prices) or indirectly (i.e. derived from prices).		
Level 3 applies inputs which are not based on observable market data.		
<b>Level 1</b>		
Class 1 - Unlisted shares	85,194	80,894
Class 2 - Listed shares	443,284	412,614
	<b>528,478</b>	<b>493,508</b>
<b>Renegotiated terms</b>		
None of the financial assets that are fully performing have been renegotiated in the last year.		
<b>Financial assets pledged as collateral</b>		
<b>Collateral</b>		
Carrying value of financial assets pledged as guarantee	59,615	54,753

# Ngwathe Local Municipality

(Registration number FS203)

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand 2015 2014

### 7. Employee benefit obligations

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

#### Carrying value

Present value of the post employment medical aid benefit	(56,456,000)	(56,567,000)
Present value of the long service award benefit	(12,887,000)	(11,573,000)
	<b>(69,343,000)</b>	<b>(68,140,000)</b>

Non-current liabilities	(66,499,650)	(65,420,000)
Current liabilities	(2,843,350)	(2,720,000)
	<b>(69,343,000)</b>	<b>(68,140,000)</b>

#### Amounts recognised in the statement of financial performance

Current service cost	4,816,000	5,672,000
Finance cost	6,259,000	4,901,000
Actuarial (gain) / loss	(7,152,000)	8,638,000
	<b>3,923,000</b>	<b>19,211,000</b>

#### Post - employment medical aid benefit

##### Medical aid scheme arrangements

The Municipality offers employees and continuation members (pensioners) the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical aid scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical aid scheme.

##### Contribution rate structures

Members contribute according to tables of contribution rates which differentiate between them on the type and number of dependants. Some options also differentiate on the basis of income.

##### Subsidy arrangements:

The Municipality has agreed to subsidise the medical aid contributions of retired members in the following way:

- All existing continuation members (pensioners) and their dependants will continue to receive a 60% subsidy to the maximum (CAP) amount of R3,618.04 (per month per member) for the period 1 July 2014 to 30 June 2015. The maximum (CAP) amount was R3,557.65 in the previous year.
- Widow(er)s and orphans of current continuation pensioners are entitled to continue at a contribution rate ranging from 45% - 100% upon the death of the pensioner.
- The maximum subsidy is expected to increase at 50% of inflation.

#### Changes in the present value of the post - employment medical aid benefit obligation are as follows:

Opening balance	56,567,000	57,813,000
Benefits paid	(1,651,000)	(1,640,000)
Net expense recognised in the statement of financial performance	(1,540,000)	(394,000)
	<b>56,456,000</b>	<b>56,567,000</b>

# Ngwathe Local Municipality

(Registration number FS203)

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand 2015 2014

### 7. Employee benefit obligations (continued)

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

Current service cost	3,193,000	3,892,000
Interest cost	5,335,000	4,132,000
Actuarial (gains) losses	(6,988,000)	(7,630,000)
	<b>1,540,000</b>	<b>394,000</b>

#### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.57 %	9.33 %
Consumer price inflation	7.10 %	7.10 %
Medical cost trends	8.60 %	8.60 %
Net discount rate $((1+D)/(1+H)-1)$	- %	- %
	-	-

#### Discount rate:

GRAP 25 defines the determination of the Discount rate assumption to be used as follows: "The discount rate that reflects the time value of money is best approximated by reference to market yield at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficient 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".

Due to the guidance received from the auditing profession, the methodology of setting the financial assumptions, has been updated to be more duration specific. At the previous valuation date, 30 June 2014, the duration of the liabilities was 16.16 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 26 March 2015 is 9.33% per annum. The assumed discount rate used at the previous valuation, 30 June 2014, was 9.57% per annum.

At 26 March 2015 the yield on inflation-linked bonds of a similar term was about 1.81% per annum. This implies an underlying expectation of inflation of 6.90% per year  $(\{1+9.33\%-0.50\% \} / [1+1.81\%]-1)$ , with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%).

Medical aid inflation:

A healthcare cost inflation rate of 8.40% was assumed. This is 1.50% in excess of the expected inflation over the expected term of the liability, at 6.90%.

However, it is the relative levels of the discount rate and healthcare inflation to one another that are important, rather than the nominal values. We have thus assumed a net discount factor of 0.86% per annum  $([1+9.33\%] \setminus [1+8.40\%] - 1)$ .

#### Mortality rates:

Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumptions was made about additional mortality or health care costs due to AIDS.

#### Spouse and dependants:

Where necessary it was assumed that female spouses would be 5 years younger than their male spouses at retirement and vice versa.

The assumption was made that continuation of post-employment health care subsidy would be at 100% of active employees, or their surviving dependants.



# Ngwathe Local Municipality

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### 7. Employee benefit obligations (continued)

#### Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	<b>1% decrease</b>	<b>1% increase</b>
Effect on the post - employment medical aid benefit obligation	47,953,000	67,200,000
Effect on the service cost	2,849,000	4,542,000
Effect on the finance cost	4,401,000	6,196,000

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## Notes to the Financial Statements

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### 7. Employee benefit obligations (continued)

#### Long service award benefit

The municipality offers long service awards for every 5 years of completed service from 5 to 45 years to their employees.

The following table illustrates the qualifying criteria:

Completed service (years)	Long service bonus award	Determination of cash bonus
5	5 days accumulative leave + 2% of annual salary	$(5/250 + 2/100) \times$ annual salary
10	10 days accumulative leave + 3% of annual salary	$(10/250 + 3/100) \times$ annual salary
15	15 days accumulative leave + 4% of annual salary	$(15/250 + 4/100) \times$ annual salary
20	15 days accumulative leave + 5% of annual salary	$(15/250 + 5/100) \times$ annual salary
25, 30, 35, 40, 45	15 days accumulative leave + 6% of annual salary	$(15/250 + 6/100) \times$ annual salary

#### Changes in the present value of the post - employment medical aid benefit obligation are as follows

Opening balance	11,573,000	11,183,000
Benefits paid	(1,069,000)	(1,151,000)
Net expense recognised in the statement of financial performance	2,383,000	1,541,000
	<b>12,887,000</b>	<b>11,573,000</b>

#### Net expense of the post - employment medical aid benefit obligation recognised in the statement of financial performance

Current service cost	1,623,000	1,780,000
Finance cost	924,000	769,000
Actuarial (gain) / loss	(164,000)	(1,008,000)
	<b>2,383,000</b>	<b>1,541,000</b>

Discount rates used	8.37 %	8.40 %
CPI	6.21 %	6.09 %
Salary increase rate	7.21 %	7.09 %
Net discount rate	1.08 %	1.22 %
	- %	- %

#### Discount rate:

GRAP 25 defines the determination of the Discount rate assumption to be used as follows: "The discount rate that reflects the time value of money is best approximated by reference to market yield at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficient 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".

The rate was therefore set as the yield of the R208 South African government bond as at the valuation date. The actual yield on the R208 bond was sourced from the RMB Global Markets' website on year end.

# Ngwathe Local Municipality

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Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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### 7. Employee benefit obligations (continued)

#### Normal salary inflation:

We have derived the underlying future rate of the consumer price index (CPI) from the relationship between the current conventional bond yields (R208) and current index-linked bond yields (R197). The actual yield on the R208 and R197 government bonds was sourced from the RMB Global Markets' website on year end. Our assumed rate of salary inflation was set as the assumed value of CPI less 1.22%.

#### Average retirement rate:

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for illhealth and early retirements.

#### Normal retirement age:

The normal retirement age (NORA) for all active employees was assumed to be 65 years.

#### Mortality rate:

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry.

#### Withdrawal decreasements:

The following table sets out the assumed rates of withdrawal from service:

Age band	Withdrawal rates
20	16.50 %
25	6.60 %
30	5.10 %
35	3.60 %
40	2.60 %
45	1.80 %
50	1.10 %
	<hr/>
	- %

#### Sensitivity analysis - Normal salary inflation

The cost of the long service awards is dependant on the increase in the annual salaries paid to the employees. The rate at which salaries increase will thus have a direct effect on the liability of future retirees.

A one percentage point change in assumed normal salary inflation trends would have the following effects:

	1% decrease	1% increase
Employer's accrued liability	12,002,000	13,879,000
Employer's expense cost	2,502,000	2,927,000
	<hr/>	<hr/>
	14,504,000	16,806,000

#### Sensitivity analysis - Mortality

The following indicates the impact of a change in the mortality assumptions from SA85-90 to SA85-90 with a two year adjustment:

30 June 2015 Valuation basis SA85-90	SA85-90 (2 year effect)
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# Ngwathe Local Municipality

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## Notes to the Financial Statements

Figures in Rand	2015	2014
<b>7. Employee benefit obligations (continued)</b>		
Employer's accrued liability	12,887,000	12,979,000
Employer's expense cost	2,702,000	2,721,000
	<b>15,589,000</b>	<b>15,700,000</b>
<b>8. Sundry receivables</b>		
Under and over banking	322,412	80,675
R/D cheques control account	1,363,541	870,558
Other sundry receivables	20,963	4,970
	<b>1,706,916</b>	<b>956,203</b>
<b>Sundry receivables pledged as security:</b>		
None of the sundry receivables are pledged as security.		
<b>Renegotiated terms:</b>		
None of the receivables that are fully performed have been renegotiated in the last year.		
<b>Fair value of sundry receivables:</b>		
The carrying value of the receivables recorded at amortised cost approximate their fair values.		
<b>Collateral:</b>		
The municipality does not hold any collateral as security.		
<b>9. Inventories</b>		
Water	126,692	118,192
Stores and materials	430,202	436,022
	<b>556,894</b>	<b>554,214</b>
Stock (losses) during the year	(70,323)	(10,970)
Inventories recognised as an expense during the year	514,554	472,427
<b>Inventory pledged as security</b>		
None of the inventory was pledged as security.		
<b>10. Receivables from exchange transactions</b>		
<b>Gross balances</b>		
Electricity	96,833,878	90,080,475
Water	161,758,761	135,330,714
Sewerage	73,900,619	68,576,554
Refuse	72,110,899	65,062,760
Sundry receivables	9,587,787	9,065,042
	<b>414,191,944</b>	<b>368,115,545</b>

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Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand	2015	2014
<b>10. Receivables from exchange transactions (continued)</b>		
<b>Less: Allowance for impairment</b>		
Electricity	(78,286,557)	(74,395,137)
Water	(154,702,220)	(130,418,625)
Sewerage	(68,367,468)	(63,296,888)
Refuse	(67,283,785)	(61,580,530)
Sundry receivables	(6,378,163)	(8,754,404)
	<b>(375,018,193)</b>	<b>(338,445,584)</b>
<b>Net balance</b>		
Electricity	18,547,321	15,685,338
Water	7,056,541	4,912,090
Sewerage	5,533,151	5,279,666
Refuse	4,827,114	3,482,230
Sundry receivables	3,209,624	310,638
	<b>39,173,751</b>	<b>29,669,962</b>
<b>Electricity</b>		
Current (0 -30 days)	11,407,986	6,809,719
31 - 60 days	5,768,681	2,922,799
61 - 90 days	3,264,867	3,874,774
91 - 120 days	18,615,456	2,971,855
121 - 365 days	11,105,983	32,543,763
> 365 days	46,670,905	40,957,565
	<b>96,833,878</b>	<b>90,080,475</b>
<b>Water</b>		
Current (0 -30 days)	4,812,220	6,208,095
31 - 60 days	3,887,971	26,378,059
61 - 90 days	12,688,455	2,879,660
91 - 120 days	4,022,352	2,768,069
121 - 365 days	3,381,771	62,841,950
> 365 days	132,965,992	34,254,881
	<b>161,758,761</b>	<b>135,330,714</b>
<b>Sewerage</b>		
Current (0 -30 days)	2,557,466	2,550,492
31 - 60 days	2,061,249	2,140,778
61 - 90 days	2,163,496	2,011,477
91 - 120 days	1,791,601	1,949,479
121 - 365 days	1,596,950	15,861,466
> 365 days	63,729,857	44,062,862
	<b>73,900,619</b>	<b>68,576,554</b>
<b>Refuse</b>		
Current (0 -30 days)	2,284,128	2,306,408
31 - 60 days	1,982,310	2,011,426
61 - 90 days	1,877,666	1,915,936
91 - 120 days	1,783,421	1,864,588
121 - 365 days	1,699,714	15,100,156
> 365 days	62,483,660	41,864,246
	<b>72,110,899</b>	<b>65,062,760</b>

# Ngwathe Local Municipality

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Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand	2015	2014
<b>10. Receivables from exchange transactions (continued)</b>		
<b>Sundry receivables</b>		
Current (0 -30 days)	3,599,401	289,252
31 - 60 days	53,323	86,068
61 - 90 days	60,531	111,542
91 - 120 days	26,025	115,461
121 - 365 days	64,111	3,395,116
> 365 days	5,784,396	5,067,603
	<b>9,587,787</b>	<b>9,065,042</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(338,445,584)	(155,509,266)
Contributions to allowance	(36,572,609)	(182,936,318)
	<b>(375,018,193)</b>	<b>(338,445,584)</b>

### Receivables pledged as security:

None of the receivables were pledged as security for any financial liability.

### Renegotiated terms:

None of the receivables that are fully performing have been renegotiated in the last year.

### Fair value of receivables:

The carrying value of the consumer receivables recorded at amortised cost approximate their fair values.

## 11. Receivables from non-exchange transactions

### Gross balances

Consumer receivables - Rates	165,689,222	135,868,410
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### Less: Allowance for impairment

Consumer receivables - Rates	(147,264,089)	(121,550,636)
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### Net balance

Consumer receivables - Rates	18,425,133	14,317,774
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### Aging of receivables from non-exchange transactions

#### Consumer receivables - rates

Current (0 -30 days)	6,233,806	6,334,423
31 - 60 days	5,422,907	5,139,698
61 - 90 days	8,030,699	4,498,184
91 - 120 days	7,241,888	4,251,029
121 - 365 days	38,257,048	30,701,227
> 365 days	100,502,874	84,943,849
	165,689,222	135,868,410
Less: Allowance for impairment	(147,264,089)	(121,550,636)
	<b>18,425,133</b>	<b>14,317,774</b>

# Ngwathe Local Municipality

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Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand 2015 2014

### 11. Receivables from non-exchange transactions (continued)

#### Reconciliation of allowance for impairment

Balance at beginning of the year	(121,550,636)	(55,659,415)
Contributions to allowance	(25,713,453)	(65,891,221)
	<b>(147,264,089)</b>	<b>(121,550,636)</b>

#### Receivables pledged as security:

None of the receivables were pledged as security for any financial liability.

#### Renegotiated terms:

None of the receivables that are fully performing have been renegotiated in the last year.

#### Fair value of receivables:

The carrying value of the consumer receivables recorded at amortised cost approximate their fair values.

### 12. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	2,364,330	-
Short-term deposits	67,894	7,882,737
Other cash and cash equivalents	652,993	92,858
Bank overdraft	-	(1,136,551)
	<b>3,085,217</b>	<b>6,839,044</b>
Current assets	3,085,216	7,975,595
Current liabilities	-	(1,136,551)
	<b>3,085,216</b>	<b>6,839,044</b>

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

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

# Ngwathe Local Municipality

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### 12. Receivables from non-exchange transactions (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2015	30 June 2014	30 June 2013	30 June 2015	30 June 2014	30 June 2013
ABSA BANK - Cheque account - 405 2707 733	2,309,550	2,705,056	814,727	2,364,330	(1,136,551)	(94,508)
ABSA BANK - Call account - 925 3832 988	21,911	184,367	482,958	21,911	184,368	482,959
ABSA BANK - Call account - 925 3833 502	2,496	3,873,906	36,365,971	2,496	3,873,907	36,365,971
ABSA BANK - Call account - 925 3833 764	10,000	488,315	2,083,940	10,000	488,316	2,083,941
ABSA BANK - Call account - 925 3835 643	1,569	23,382	3,652,279	1,569	23,382	3,652,279
ABSA BANK - Cheque account - 113 000 0041	652,993	92,858	3,652,279	652,993	92,858	4,147,360
ABSA BANK - Call account - 928 627 1086	2,539	2,283,507	-	2,539	2,283,507	-
ABSA BANK - Call account - 928 627 1167	29,379	1,029,257	-	29,379	1,029,257	-
<b>Total</b>	<b>3,030,437</b>	<b>10,680,648</b>	<b>47,052,154</b>	<b>3,085,217</b>	<b>6,839,044</b>	<b>46,638,002</b>

### 13. Finance lease obligation

#### Minimum lease payments due

- within one year	643,986	1,487,675
- in second to fifth year inclusive	705,032	1,349,018

less: future finance charges

1,349,018	2,836,693
(151,771)	(430,005)

#### Present value of minimum lease payments

<b>1,197,247</b>	<b>2,406,688</b>
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#### Present value of minimum lease payments due

- within one year	562,917	1,209,441
- in second to fifth year inclusive	634,330	1,197,247

<b>1,197,247</b>	<b>2,406,688</b>
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Non-current liabilities

Current liabilities

634,330	1,197,247
562,917	1,209,441

<b>1,197,247</b>	<b>2,406,688</b>
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It is municipality policy to lease certain motor vehicles under finance leases.

The average lease term was 5-6 years and the average effective borrowing rate was 19% (2014: 19%).

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets.



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Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand	2015	2014
<b>14. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
Department of Mineral and Energy Grant (INEG)	76,179	-
Municipal Infrastructure Grant	-	5,638,482
	<b>76,179</b>	<b>5,638,482</b>
<b>Movement during the year</b>		
Balance at the beginning of the year	5,638,482	5,638,482
Additions during the year	186,258,118	216,601,000
Income recognition during the year	(191,820,421)	(216,601,000)
	<b>76,179</b>	<b>5,638,482</b>
The nature and extent of government grants recognised in the financial statements is an indication of other forms of government assistance from which the municipality has directly benefited.		
See note 25 for reconciliation of grants from National/Provincial Government.		
These amounts are invested in a ring-fenced investment until utilised.		
<b>15. Other financial liabilities</b>		
<b>At amortised cost</b>		
DBSA Loan	6,304,007	8,633,708
Loan bears interest at 10% annually and penalty interest of 12% annually. Re-payments are done on a quarterly basis.		
<b>Non-current liabilities</b>		
At amortised cost	4,122,303	6,304,008
<b>Current liabilities</b>		
At amortised cost	2,181,704	2,329,700

# Ngwathe Local Municipality

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## Notes to the Financial Statements

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### 16. Provisions

#### Reconciliation of provisions - 2015

	Opening Balance	Additions	Total
Environmental rehabilitation	55,359,913	135,919,308	191,279,221

#### Reconciliation of provisions - 2014

	Opening Balance	Additions	Total
Environmental rehabilitation	30,957,439	24,402,474	55,359,913

#### Environmental rehabilitation provision

The purpose of this provision is to determine the closure costs for the waste disposal sites in the Ngwathe Municipal area. The sites under consideration are the Edenville, Heilbron, Koppies, Parys and Vredefort disposal sites.

South African solid waste legislation has been going through a thorough metamorphosis during the past few years and continues to do so, affecting all aspects of solid waste management through this process. Almost all aspects of the waste life cycle have been addressed and, more to the point of this report, the issue of landfill designs. New base liner designs for different landfill classes have been detailed, however, no new landfill capping designs for rehabilitation have been detailed since the Minimum Requirements (2nd Edition, 1998) issued by the Department of Water Affairs and Forestry (DWAf) at the time. There were however recent suggestions by the Department of Water and Sanitation (DWS) in a Record of Decision issued to D:EA for the licence applications for the closure of 192 landfill facilities under the National Outcome 10 Project.

However, the Minimum Requirements was used in the past as guideline for the design of the capping layers as well as the capacity of the storm water drainage system and to subsequently calculate rehabilitation cost estimates, which was industry standard. The closure and rehabilitation of a landfill involves firstly the application for a closure licence during which a Basic Assessment and specialist studies are conducted specific to the landfill in question. From this application, it becomes clear as to the specific requirements to properly rehabilitate the landfill and render it environmentally suitable to its proposed enduse. If a landfill was issued with an operating permit/licence, a closure design would have been proposed before the issuing of the permit, only now requiring modification (if necessary) rather than a new design.

However, with most landfills being unlicensed/unpermitted, no designs have been done or approved. Historically, a rehabilitation engineering design which included the proposed capping layers was then presented to DWA (now DWS) for approval. After obtaining approval, the landfill was rehabilitated according to the approved design. No closure licences which stipulate capping designs have been issued to date for the Ngwathe Municipality. The closure cost estimates of this provision have therefore been based on the proposed requirements for capping layers by DWS which are similar to stipulated requirements in recently issued closure licences in other Municipalities.

#### The closure cost of the following disposal sites were provided for:

Disposal site	Opening balance	Movement	Closing balance
Edenville	5,603,311	9,045,253	14,648,564
Heilbron	12,713,171	44,731,637	57,444,808
Koppies	2,713,999	2,725,605	5,439,604
Parys	27,207,584	64,305,905	91,513,490
Vredefort	7,121,849	15,110,907	22,232,756
	<b>55,359,914</b>	<b>135,919,307</b>	<b>191,279,222</b>

# Ngwathe Local Municipality

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Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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### 16. Provisions (continued)

#### Material cost increase due to capping design requirements effective from 1 July 2014:

In order to give a general explanation for the significant rehabilitation estimate increases as compared to the previous estimates, the previous capping design (MR2) has been priced per square meter versus the capping design provided for in the 2015 estimates. The MR2 capping design was updated as per details contained in the recommendations made by the regulating authorities. The estimates are also based on rates for importing the capping materials from commercial sources and local sources as in the ratios used..

The old capping requirements required only 200mm topsoil. To construct this capping, the estimate is R45/m<sup>2</sup>. (Rates as at 30 June 2015). The capping design based on licenses and using GCL instead of clay due to unavailability of sufficient quality and quantity clay. This revised capping design requires additional layers and materials over the entire footprint that requires rehabilitation due to the absence of impermeable base liners as explained elsewhere. The cost estimate to construct this capping is approximately R197/m<sup>2</sup>. (Rates as at 30 June 2015)

The comparison shows an increase of approximately 437% per square meter of waste body requiring rehabilitation. This has a significant impact on the cost estimates, especially with footprints requiring rehabilitation that have increased, for example the Parys site.

#### Prior year adjustment and correction:

The previous year's assessment (30 June 2014) did not fully represent the area that required rehabilitation at that stage. The previous interpretation was that the additional area was a temporary site of which the waste would be moved in the future. It has since been identified that the total area would have required rehabilitation due to the disposal activities taking place. In order to recalculate the 30 June 2014 cost estimate for Parys, the 2014 aerial image was used to measure the entire used footprint. The cost estimate is also based on the capping design used for the 2014 estimates.

Footprint measured for 30 June 2014 estimate: 165 955m<sup>2</sup>

### 17. Payables from exchange transactions

Trade payables	479,719,639	313,138,415
Payments received in advanced	19,637,026	16,090,527
Accrued leave pay	14,142,011	13,603,100
Accrued bonus	3,877,296	3,883,540
Deposits received	189,255	188,106
Other payables	40,414	49,419
Salary suspense account	24,824,587	26,749,488
Unallocated receipts	7,727	1,057,271
Retentions	2,748,973	1,648,007
	<b>545,186,928</b>	<b>376,407,873</b>

### 18. Consumer deposits

Electricity and water - Parys	3,520,898	3,040,885
Electricity and water - Heilbron	1,165,867	1,104,962
Electricity and water - Vredefort	454,207	445,502
Electricity and water - Edenville	72,260	61,619
Electricity and water - Koppies	266,143	264,950
Electricity and water - Tumahole	33,739	33,739
	<b>5,513,114</b>	<b>4,951,657</b>

# Ngwathe Local Municipality

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## Notes to the Financial Statements

Figures in Rand	2015	2014
<b>19. Service charges</b>		
Sale of electricity	121,738,793	117,461,396
Sale of water	65,193,754	24,346,982
Sewerage and sanitation charges	33,958,824	25,996,016
Refuse removal	32,230,041	29,083,911
	<b>253,121,412</b>	<b>196,888,305</b>
<b>20. Rental of facilities and equipment</b>		
<b>Premises</b>		
Premises	1,174,112	1,068,054
Airport hire	16,614	16,675
Venue hire	21,739	24,924
Camps	26,045	26,045
Buildings and housing	189,080	203,103
	<b>1,427,590</b>	<b>1,338,801</b>
<b>Facilities and equipment</b>		
Rental of equipment	6,572	753
	<b>1,434,162</b>	<b>1,339,554</b>
<b>21. Fines</b>		
Fines - tampered meters	708,687	545,373
Fines - traffic	196,842	282,770
	<b>905,529</b>	<b>828,143</b>
<b>22. Other income</b>		
Auction Fees	-	34,259
Administration fees	2,370	1,606
Building plans and inspections	76,318	91,419
Clearance certificates	101,700	69,088
Reconnection / connection fees	453,201	10,478
Grave plots	757,738	615,867
Tender deposits	113,893	150,694
Sundry income	95,930	294,255
Sale of land	469,630	46,009
	<b>2,070,780</b>	<b>1,313,675</b>
<b>23. Investment revenue</b>		
<b>Dividend revenue</b>		
Dividends received (listed and unlisted shares)	16,334	4,481
<b>Interest revenue</b>		
Other financial assets	756,030	2,027,176
Interest charged on trade and other receivables	34,275,651	26,419,015
	<b>35,031,681</b>	<b>28,446,191</b>
	<b>35,048,015</b>	<b>28,450,672</b>

# Ngwathe Local Municipality

(Registration number FS203)

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand	2015	2014
<b>24. Property rates</b>		
<b>Rates received</b>		
Property rates charged	100,678,438	74,854,161
Less: Income forgone	(39,255,048)	(31,931,147)
	<b>61,423,390</b>	<b>42,923,014</b>
<b>Valuations</b>		
Agriculture	3,535,842,343	3,535,842,343
Business	193,970,680	193,970,680
Churches	71,853,510	71,853,510
Government	302,423,529	302,423,529
Industrial	26,625,300	26,625,300
Municipal	132,328,580	132,328,580
Residential	4,180,444,731	4,180,444,731
Schools	48,217,050	48,217,050
Small business	9,889,100	9,889,100
Undeveloped land	12,229,301	12,229,301
Other	840,000	840,000
Public service infrastructure	3,471,800	3,471,800
	<b>8,518,135,924</b>	<b>8,518,135,924</b>

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The effective date of the valuation was 01 July 2014. The valuations were performed by an independent valuer, Mr Arthur Lelosa, of Manna Holdings. Manna Holdings are not connected to the municipality and have recent experience in location and category of the investment property being valued

The new general valuation will be implemented on 01 July 2019.

# Ngwathe Local Municipality

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Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand 2015 2014

### 25. Government grants and subsidies

#### Operating grants

Equitable share	116,834,000	149,016,819
Local Government Finance Management Grant	1,600,000	1,550,000
Subsidy received from Provincial Treasury	500,000	416,224
	<b>118,934,000</b>	<b>150,983,043</b>

#### Capital grants

Municipal Systems Improvement Grant	934,000	890,000
Expanded Public Works Programme	1,000,000	1,000,000
Integrated National Electrification Grant	4,923,821	20,000,000
Municipal Infrastructure Grant	56,519,481	63,650,519
Department of Water and Forestry Grant	10,009,118	2,100,000
	<b>73,386,420</b>	<b>87,640,519</b>
	<b>192,320,420</b>	<b>238,623,562</b>

#### Conditional and Unconditional

Included in above are the following grants and subsidies received:

Unconditional grants received	116,834,000	149,016,819
Conditional grants received	75,486,420	89,606,743
	<b>192,320,420</b>	<b>238,623,562</b>

#### Equitable Share

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

#### Heading

Current-year receipts	116,834,000	149,016,819
Conditions met - transferred to revenue	(116,834,000)	(149,016,819)
	-	-

#### Integrated National Electrification Grant

Current-year receipts	5,000,000	20,000,000
Conditions met - transferred to revenue	(4,923,822)	(20,000,000)
	<b>76,178</b>	-

Conditions still to be met - remain liabilities (see note 14).

The grant is used to implement the Integrated National Electrification Programme by providing capital subsidies to municipalities to address the electrification backlog of occupied residential dwellings, and the installation of bulk infrastructure.

#### Department of Water and Forestry Grant

Current-year receipts	10,009,118	2,100,000
Conditions met - transferred to revenue	(10,009,118)	(2,100,000)
	-	-

The grant is used to subsidise, refurbish and restore the functionality of water services schemes previously owned and/or operated by the Department of Water Affairs or by other agencies on behalf of the department.

# Ngwathe Local Municipality

(Registration number FS203)

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand

	2015	2014
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### 25. Government grants and subsidies (continued)

#### Municipal Infrastructure Grant

Balance unspent at beginning of year	5,638,481	24,097,626
Current-year receipts	50,881,000	47,889,000
Conditions met - transferred to revenue	(56,519,481)	(63,650,519)
Paid back to Treasury	-	(2,697,626)
	<u>-</u>	<u>5,638,481</u>

Conditions still to be met - remain liabilities (see note 14).

The grant is used to provide specific capital finance for eradicating basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions servicing poor communities.

#### Local Government Financial Management Grant

Balance unspent at beginning of year	-	1,125,000
Current-year receipts	1,600,000	1,550,000
Conditions met - transferred to revenue	(1,600,000)	(1,550,000)
Paid back to Treasury	-	(1,125,000)
	<u>-</u>	<u>-</u>

The grant is used to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act.

#### Expanded Public Works Programme

Balance unspent at beginning of year	-	791,025
Current-year receipts	1,000,000	1,000,000
Conditions met - transferred to revenue	(1,000,000)	(1,000,000)
Other	-	(791,025)
	<u>-</u>	<u>-</u>

The grant is used to incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in the following identified focus areas, in compliance with the Expanded Public Works Programme Guidelines: road maintenance and the maintenance of buildings, low traffic volume roads and rural roads, basic services infrastructure, including water and sewer reticulation, sanitation, pipelines (excluding bulk infrastructure), other economic and social infrastructure, tourism and cultural industries, waste management, parks and beautification, sustainable land-based livelihoods, social services programme, health service programme and community safety programme.

#### Municipal Systems Improvement Grant

Balance unspent at beginning of year	-	560,843
Current-year receipts	934,000	890,000
Conditions met - transferred to revenue	(934,000)	(890,000)
Other	-	(560,843)
	<u>-</u>	<u>-</u>

The grant is used to assist municipalities to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act and related legislations.

#### Subsidy received from Provincial Treasury

Current-year receipts	500,000	416,224
Conditions met - transferred to revenue	(500,000)	(416,224)

# Ngwathe Local Municipality

(Registration number FS203)

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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Figures in Rand	2015	2014
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**25. Government grants and subsidies (continued)**

	-	-
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Provincial Treasury paid on behalf of the municipality a part of their audit fees owing to the Auditor General.



# Ngwathe Local Municipality

(Registration number FS203)

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand

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### 26. Employee related costs

Basic	101,009,682	101,014,551
Bonus	7,720,020	7,970,053
Medical aid - company contributions	6,468,967	5,666,433
UIF	1,219,446	1,226,159
Other payroll levies	1,480,308	1,404,380
Leave pay provision charge	2,483,601	1,055,509
Service cost - employee benefits	4,816,000	5,672,000
Overtime payments	18,711,785	15,469,172
Pension fund contributions	17,858,451	17,338,735
Car allowance	4,464,332	4,717,102
Housing benefits and allowances	310,061	275,254
Other allowances	11,240,678	10,141,655
Group life insurance	1,324,512	1,209,074
	<b>179,107,843</b>	<b>173,160,077</b>

### Remuneration of Municipal Manager (Mokoena TS)

Annual Remuneration	-	645,547
Allowances	-	161,691
Contributions to UIF, Medical and Pension Funds	-	1,635
	<b>-</b>	<b>808,873</b>

### Remuneration of Municipal Manager (Kamolane LD)

Annual Remuneration	830,660	-
Allowances	222,839	5,259
Contributions to UIF, Medical and Pension Funds	115,674	-
	<b>1,169,173</b>	<b>5,259</b>

### Remuneration of Acting Chief Financial Officer (Hlongwane AT)

Annual Remuneration	-	541,210
Allowances	-	199,900
Contributions to UIF, Medical and Pension Funds	-	14,684
	<b>-</b>	<b>755,794</b>

Acting for the period 1 May 2014 to 30 June 2014.

### Remuneration of Acting Chief Financial Officer (Mkhuma TG)

Annual Remuneration	411,722	-
Allowance	300,929	-
Contributions to UIF, Medical and Pension Funds	120,509	-
	<b>833,160</b>	<b>-</b>

### Remuneration of Director Technical Services (Coetzer HW)

Annual Remuneration	-	457,414
Allowance	-	155,478
	<b>-</b>	<b>612,892</b>

### Remuneration of Director Technical Services (Shabalala NE)

# Ngwathe Local Municipality

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Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand	2015	2014
<b>26. Employee related costs (continued)</b>		
Annual Remuneration	600,433	-
Allowance	180,514	-
Contributions to UIF, Medical and Pension Funds	9,233	-
	<b>790,180</b>	<b>-</b>
<b>Remuneration of Director Community Services (Kamolane LD)</b>		
Annual Remuneration	-	637,123
Allowance	-	82,072
Contributions to UIF, Medical and Pension Funds	-	59,578
	<b>-</b>	<b>778,773</b>
<b>Remuneration of Director Community Services (Netshivhodza AB)</b>		
Annual Remuneration	311,023	-
Allowance	174,032	-
Contributions to UIF, Medical and Pension Funds	33,672	-
	<b>518,727</b>	<b>-</b>
<b>Remuneration of Director Corporate Services (Majivolo ZJ)</b>		
Annual Remuneration	411,722	411,722
Allowance	319,372	319,372
Contributions to UIF, Medical and Pension Funds	130,668	130,668
	<b>861,762</b>	<b>861,762</b>
<b>Remuneration of Director Corporate Services (Tsekedi PS)</b>		
Annual Remuneration	89,433	-
Allowance	52,481	-
Contributions to UIF, Medical and Pension Funds	29,568	-
Other	-	-
	<b>171,482</b>	<b>-</b>
<b>27. Remuneration of councillors</b>		
Executive Mayor	743,223	483,020
Mayoral Committee Members	1,604,679	893,154
Speaker	599,174	357,510
Councillors	7,763,703	8,442,720
	<b>10,710,779</b>	<b>10,176,404</b>

# Ngwathe Local Municipality

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Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand

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### 27. Remuneration of councillors (continued)

#### In-kind benefits

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

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

The Executive Mayor has one full-time bodyguard.

#### Details per councillor - 30 June 2015

	Annual remuneration and backpay	Allowances	Company contributions	Total
Vermaak SM	164,558	63,859	11,682	240,099
Schoonwinkel A	226,930	77,897	16,131	320,958
Mopedi NP	226,930	77,897	16,131	320,958
Ndlovu NA	164,558	63,859	11,682	240,099
Vandisi TL	226,930	77,897	16,131	320,958
Van der Merwe PP	164,695	75,321	-	240,016
Mbele MA	164,558	63,859	11,682	240,099
Oliphant AM	164,558	63,859	11,682	240,099
Sothoane EC	164,695	75,321	-	240,016
Ndayi PR	400,802	152,708	45,664	599,174
Serathi M	226,930	77,897	16,131	320,958
Mvulane L	164,558	52,334	23,207	240,099
Mofokeng MD	163,933	58,803	17,280	240,016
Choni SP	165,869	62,449	11,780	240,098
Mandelstam G	241,759	79,088	-	320,847
Serfontein C	243,312	77,154	-	320,466
Khumalo JK	164,695	75,321	-	240,016
Hlapane ML	166,511	73,505	-	240,016
Tlali LL	164,558	63,859	11,682	240,099
Mofokeng MM	164,558	63,859	11,682	240,099
Bocibo CN	164,558	63,859	11,682	240,099
Masooa MJ	164,558	52,334	23,207	240,099
Radebe DM	164,558	63,859	11,682	240,099
Mofokeng ML	164,558	63,859	11,682	240,099
Molotsane RJ	164,558	63,858	11,682	240,098
Modiko DV	164,558	63,859	11,682	240,099
De Beer VE	164,695	75,321	-	240,016
Mehlo LR	164,558	63,859	11,682	240,099
Ramabitsa IM	144,534	68,079	27,485	240,098
Ranthako MC	164,558	63,859	11,682	240,099
Swart AP	164,695	75,321	-	240,016
Mochela MJ	539,408	148,163	55,652	743,223
Molaphene PM	178,252	61,764	142	240,158
Seabi IS	164,695	75,321	-	240,016
Sehumi NA	164,695	75,321	237	240,253
Roos J	164,695	75,321	237	240,253
Motsumi ME	164,695	75,321	237	240,253
Scholtz F	164,995	75,021	237	240,253
De Jager AJ	164,993	75,021	245	240,259
	<b>7,432,713</b>	<b>2,856,066</b>	<b>422,000</b>	<b>10,710,779</b>

#### Details per councillor - 30 June 2014

# Ngwathe Local Municipality

(Registration number FS203)

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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### 27. Remuneration of councillors (continued)

	Annual remuneration and backpay	Allowances	Company contributions	Total
Mochela M	499,159	202,138	36,831	738,128
Ndayi PR	370,421	191,711	27,297	589,429
Vandisi TL	194,493	113,907	14,807	323,207
Serathi M	194,468	113,906	14,807	323,181
Mandelstam GP	233,334	75,066	-	308,400
Mopedi NP	218,356	90,044	15,702	324,102
Schoonwinkel A	218,356	90,044	15,702	324,102
Oliphant AM	158,804	71,888	11,420	242,112
Bocibo C	158,804	71,888	11,420	242,112
Vermaak SM	157,925	72,767	11,403	242,095
Ndlovu NA	158,804	71,888	11,420	242,112
Magashule ME	105,870	55,750	8,340	169,960
Mvulane L	158,804	71,888	11,420	242,112
Choni SP	158,804	71,888	11,420	242,112
Khumalo KJ	158,804	71,888	11,420	242,112
Cock LA	48,416	21,470	-	69,886
Masooa MJ	158,804	71,888	11,420	242,112
Mbele AM	158,804	71,888	11,420	242,112
Mehlo LR	158,802	71,890	11,420	242,112
Radebe DM	158,804	71,888	11,420	242,112
Ramabitsa IM	158,804	71,888	11,420	242,112
Ranthako MC	158,804	71,888	11,420	242,112
Serfontein C	233,334	75,066	-	308,400
Spence DI	158,804	71,888	11,420	242,112
Swart AP	158,804	71,888	11,420	242,112
Tlali LL	157,963	72,829	11,051	241,843
Modiko DV	158,804	71,888	11,420	242,112
Mofokeng MM	157,872	72,821	11,402	242,095
Mofokeng MD	158,804	71,888	11,420	242,112
Mofokeng LM	157,787	72,905	11,401	242,093
Sothoane BT	158,812	71,880	-	230,692
De Beer VE	158,804	71,888	-	230,692
Van der Merwe PP	158,812	71,880	-	230,692
Sothoane CE	158,812	71,880	-	230,692
Seabi IS	158,804	71,888	11,420	242,112
Molaphene PM	166,280	64,412	-	230,692
Sehume NA	169,698	57,396	-	227,094
Motsumi ME	159,044	71,648	-	230,692
Scholtz F	71,215	32,910	-	104,125
Hlapane ML	158,804	71,888	-	230,692
	<b>7,007,701</b>	<b>3,128,304</b>	<b>372,883</b>	<b>10,508,888</b>

### 28. Depreciation and amortisation

Property, plant and equipment	72,048,380	72,149,303
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# Ngwathe Local Municipality

(Registration number FS203)

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand	2015	2014
<b>29. Impairment of assets</b>		
<b>Impairments</b>		
Property, plant and equipment	402,513	-
The main town hall in Heilbron was completely damaged by fire on 26 April 2015.		
Condition assesment of movable assets lower than anticipated		
Trade and other receivables	62,286,062	248,827,539
The recoverable amount of trade and other receivables was calculated on a individual basis per receivable based on past payment trends and individual risk categories. The difference between the recoverable amount and the gross balance per receivable was impaired for.		
	<b>62,688,575</b>	<b>248,827,539</b>
<b>The main classes of assets affected by impairment losses are:</b>		
Buildings		
Furniture and fittings		
IT equipment		
Motor vehicles		
<b>The main events and circumstances that led to the recognition of these impairment losses are as follows:</b>		
Buildings damaged by fire, cause still under investigation.		
Condition assesment of movable assets lower than anticipated.		
<b>30. Finance costs</b>		
Finance leases	278,234	436,675
Trade and other payables	46,414,278	27,108,495
Other financial liabilities	870,300	1,143,198
Late payment of tax	4,889,595	4,334,088
Employee benefits	6,259,000	4,901,000
	<b>58,711,407</b>	<b>37,923,456</b>
<b>31. Bad debts written off</b>		
Indigent subsidies	5,508,527	10,592,364
Other bad debts written off	59,861,099	32,738,395
	<b>65,369,626</b>	<b>43,330,759</b>
<b>32. Bulk purchases</b>		
Electricity	138,969,514	132,734,113
Water	23,525,700	16,543,074
	<b>162,495,214</b>	<b>149,277,187</b>
<b>33. Contracted services</b>		
Billing and meter reading fees	633,742	2,884,857
Security services	1,776,655	1,396,310
Other service contractors	109,649	199,194
	<b>2,520,046</b>	<b>4,480,361</b>

# Ngwathe Local Municipality

(Registration number FS203)

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand	2015	2014
<b>34. General expenses</b>		
Accommodation cost	834,166	540,697
Advertising	876,113	893,197
Auditors remuneration	4,789,282	4,398,237
Bank charges	833,602	821,149
Cleaning	430,257	908,408
Commission paid	173,290	2,648,286
Consulting and professional fees	4,596,607	2,810,047
DME expenditure	-	19,867,094
Donations	195,000	160,854
Entertainment	158,084	79,604
Annual report	6,854	16,824
Bursaries	640,907	734,156
Hire	5,626,425	4,834,912
Insurance	2,675,879	2,633,380
Rent - plant and vehicles	3,202,186	2,428,668
Legal fees	3,618,921	2,976,544
Project management unit expenditure	1,994,044	338,546
Revision of IDP	-	73,741
Fuel and oil	2,835,559	2,649,174
Postage and courier	1,454,460	1,493,394
Printing and stationery	1,244,235	1,947,770
Marketing	195	86,886
Protective clothing	1,907,945	293,266
Financial system (BCX)	2,288,976	507,606
Software expenses	263,871	99,639
Subscriptions and membership fees	1,826,722	8,004
Telephone and fax	4,292,640	3,003,463
Transport and freight	134,002	532,513
Training	443,265	1,035,169
Travel and subsistence	824,267	1,021,716
EPWP expenditure	899,442	1,082,548
LED projects	587,388	-
Arts and culture markets	34,200	37,798
Chemicals	6,349,399	7,216,758
Valuation roll expenses	419,103	3,508,116
Employee wellness	17,055	145,720
Youth development	128,964	367,407
Licenses	169,630	301,000
Grave digging	458,357	126,036
Rehabilitation cost - landfill site	135,919,308	24,402,474
Organisational development strategy	18,200	97,610
Lease rentals on operating leases	1,879,786	2,370,353
Delivery expenses	-	(877)
Other expenses	4,634,570	10,492,153
	<b>199,683,156</b>	<b>109,990,040</b>
<b>35. Repairs and maintenance</b>		
Repairs and maintenance	26,854,071	27,068,714
<b>36. Fair value adjustments</b>		
Investment property (Fair value model)	10,112,722	-
Other financial assets		
• Other financial assets (Designated as at FV through P&L)	80,113	148,424
	<b>10,192,835</b>	<b>148,424</b>

# Ngwathe Local Municipality

(Registration number FS203)

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand	2015	2014
<b>37. Auditors' remuneration</b>		
Fees	4,789,282	4,398,237
<b>38. Cash generated from operations</b>		
Deficit	(277,704,122)	(358,124,789)
<b>Adjustments for:</b>		
Depreciation and amortisation	72,048,380	72,149,303
Service cost - employee cost	4,816,000	5,672,000
Assets written off	1,113,245	883,326
Fair value adjustments	(10,192,835)	(148,424)
Finance costs - Finance leases	278,234	436,675
Finance cost - non cash	3,807,144	-
Impairment of PPE and receivables	62,688,575	248,827,539
Bad debts written off	65,369,626	43,330,759
Movement in leave accrual	2,483,601	1,055,509
Journals against accumulated surplus	10	(61,723,961)
Actuarial gains/losses	(7,152,000)	(8,638,000)
Inventories losses/write-downs	70,323	10,970
Movement in bonus accrual	(6,245)	204,156
<b>Changes in working capital:</b>		
Inventories	(2,680)	(50,637)
Receivables from exchange and non-exchange transactions	(76,299,723)	(86,806,757)
Sundry receivables	(750,712)	105,237,217
Payables from exchange transactions	239,328,737	92,347,445
VAT	(5,702,950)	(2,888,822)
Unspent conditional grants and receipts	(5,562,303)	(29,993,633)
Consumer deposits	561,457	874,552
Finance leases	(1,487,675)	1,970,013
	<b>67,704,087</b>	<b>24,624,441</b>

### 39. Financial instruments disclosure

#### Categories of financial instruments

##### 2015

#### Financial assets

	At fair value	At cost	Total
Other financial assets	528,478	972,635	1,501,113
Trade and other receivables from exchange transactions	-	39,173,751	39,173,751
Trade and other receivables from non-exchange transactions	-	18,425,133	18,425,133
Cash and cash equivalents	-	3,085,216	3,085,216
Sundry receivables	-	1,706,915	1,706,915
	<b>528,478</b>	<b>63,363,650</b>	<b>63,892,128</b>

#### Financial liabilities

	At cost	Total
Other financial liabilities	6,304,007	6,304,007
Trade and other payables from exchange transactions	545,186,928	545,186,928
Consumer deposits	5,513,114	5,513,114
Unspent conditional grants and receipts	76,179	76,179
	<b>557,080,228</b>	<b>557,080,228</b>

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### . Financial instruments disclosure (continued)

2014

#### Financial assets

	<b>At fair value</b>	<b>At cost</b>	<b>Total</b>
Other financial assets	493,508	924,639	1,418,147
Trade and other receivables from exchange transactions	-	29,669,962	29,669,962
Trade and other receivables from non-exchange transactions	-	14,317,774	14,317,774
Consumer debtors	-	956,202	956,202
Cash and cash equivalents	-	7,975,595	7,975,595
	<b>493,508</b>	<b>53,844,172</b>	<b>54,337,680</b>

#### Financial liabilities

	<b>At cost</b>	<b>Total</b>
Other financial liabilities	8,633,708	8,633,708
Trade and other payables from exchange transactions	376,407,873	376,407,873
Consumer deposits	4,951,657	4,951,657
Unspent conditional grants	5,638,482	5,638,482
	<b>395,631,720</b>	<b>395,631,720</b>



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### 40. Commitments

#### Authorised capital expenditure

##### Already contracted for but not provided for

• Property, plant and equipment	104,342,894	98,852,419
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##### Not yet contracted for and authorised by accounting officer

• Property, plant and equipment	100,767,395	61,105,485
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##### Total capital commitments

Already contracted for but not provided for	104,342,894	98,852,419
Not yet contracted for and authorised by accounting officer	100,767,395	61,105,485
	<b>205,110,289</b>	<b>159,957,904</b>

#### Authorised operational expenditure

##### Total commitments

##### Total commitments

Authorised capital expenditure	205,110,289	159,957,904
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This committed expenditure relates to plant and equipment and will be financed by available bank facilities, existing cash resources, MIG allocations during the year and funds internally generated.

#### Operating leases - as lessee (expense)

##### Minimum lease payments due

- within one year	1,020,753	1,567,062
- in second to fifth year inclusive	348,880	1,369,633
	<b>1,369,633</b>	<b>2,936,695</b>

Operating lease payments represent rentals payable by the municipality for certain of its office and computer equipment. Leases are negotiated for an average term of 3 years. No contingent rent is payable.

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### 41. Contingencies

The municipality has the following contingent liabilities and contingent assets:

#### Court proceedings:

The following cases against and for the municipality have been recorded as contingent liabilities and contingent assets as there is uncertainty as to the outcome of the cases. The municipality is defending these cases. The potential legal costs have not been included in the claims.

#### SS Janika vs NLM (Case 1)

New contingency for the year	40,000	-
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Litigation is in the process against the municipality whereby the plaintiff was involved in an vehicle accident with the municipal refuse truck and the complainant was seeking damages to the amount disclosed above.

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.

Attorneys: JC Burger Attorneys

#### MM Magashule vs NLM (Case 2)

New contingency for the year	9,702	-
Payments made during the year	(9,702)	-
	-	-

Litigation was in the process against the municipality for overtime not paid in accordance with the overtime policy and the complainant was seeking damages to the amount disclosed above.

The municipality paid the plaintiff the amount of R9 702 as per court order on 11 May 2015.

Attorneys: JC Burger Attorneys

#### HND Labuschagne vs NLM (Case 3)

New contingency during the year	5,058	-
Payments made during the year	(5,058)	-
	-	-

Litigation was in the process against the municipality for damages caused to vehicle due to potholes and the complainant was seeking damages to the amount disclosed above.

The municipality paid the plaintiff the amount of R5 058 as per court order on 11 May 2015.

Attorney: JC Burger Attorneys

#### Adcol Administrators vs NLM (Case 4)

New contingency for the year	1,105	-
Payments made during the year	(1,105)	-
	-	-

Litigation was in the process against the municipality for failure to comply to a BBP in terms of administration order and the complainant was seeking damages to the amount disclosed above.

The municipality paid the plaintiff the amount of R1 105 as per court order on 11 May 2015

Attorneys: JC Burger Attorneys

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<b>41. Contingencies (continued)</b>		
<b>Mispha vs NLM (Case 5)</b>		
Opening balance	3,883	-
Payments made during the year	(3,883)	3,883
	<u>-</u>	<u>3,883</u>

Litigation was in the process against the municipality for failure to implement emolument order on municipal employees and the complainant was seeking damages to the amount disclosed above.

The municipality paid the plaintiff the amount of R3 883 as per court order on 11 May 2015.

Attorneys: JC Burger Attorneys

### Gerhard van der Merwe Attorneys vs NLM (Case 6)

New contingency for the year	13,167	-
Payments made during the year	(13,167)	-
	<u>-</u>	<u>-</u>

Litigation was in the process against the municipality relating to an outstanding amount not settled and the complainant was seeking damages to the amount disclosed above.

The municipality paid the plaintiff the amount of R13 167 as per court order on 28 October 2014.

Attorneys: JC Burger Attorneys

### Mxolisi Pali vs NLM (Case 7)

New contingency for the year	<u>-</u>	<u>-</u>
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Litigation is in the process against the municipality relating to an unlawful suspension according to SAMWU and the plaintiff is only suing to be reinstated and to cover the legal fees.

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.

Attorneys: Morris Rasegoete Attorneys and In-house

### Matolo / Makgele Attorneys vs NLM (Case 8)

New contingency for the year	<u>18,410</u>	<u>-</u>
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Litigation is in the process against the municipality relating to an outstanding amount not settled and the complainant is seeking damages to the amount disclosed above.

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.

Attorney: In-house

### Concentrated Solutions vs NLM (Case 9)

New contingency for the year	<u>9,799</u>	<u>-</u>
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Litigation is in the process against the municipality relating to an outstanding amount not settled and the complainant is seeking damages to the amount disclosed above.

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.

Attorneys: In-house

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### 41. Contingencies (continued)

#### Tsekema Consulting & Project Managers vs NLM (Case 10)

New contingency for the year	6,419,682	-
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Litigation is in the process against the municipality relating to an outstanding amount not settled and the complainant is seeking damages to the amount disclosed above.

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.

Attorneys: In-house

#### Moedi Consulting Engineers vs NLM (Case 11)

New contingency for the year	1,179,300	-
Adjustments made during the year	(1,179,300)	-

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	-	-
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Litigation is in the process against the municipality relating to an outstanding amount not settled and the complainant is seeking damages to the amount disclosed above.

The case has been struck from the roll and the plaintiff decided they will not pursue any further action.

Attorney: Motlatsi Seleke Attorneys

#### J Sekgalolo vs NLM (Case 12)

Opening balance	2,013,580	6,043,155
Adjustments to the opening balance	-	(4,029,575)

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	2,013,580	2,013,580
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Litigation is in the process against the municipality relating to an outstanding amount not settled and the complainant is seeking damages to the amount disclosed above.

The municipality pay the plaintiff R4 029 575 on 13 July 2007, the balance of the claim is still contested and 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.

Attorneys: Mpoloane Attorneys

#### R Fourie & JD Bornman vs NLM (Case 13)

New contingency for the year	13,830	-
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Litigation is in the process against the municipality for unlawful disconnection in contravention of Municipal Revenue and Debt collection by-law and is seeking damages to the amount disclosed above

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.

Attorneys: Motlatsi Seleke Attorneys

#### Latlonkana Marumo vs NLM (Case 14)

Adjustments during the year	163,818	-
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Litigation is in the process against the municipality for failure to adhere to collective agreement in paying acting allowance to the amount disclosed above.

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### 41. Contingencies (continued)

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.

Attorney: Morris Rasegoete Attorneys

#### **SAMWU obo Mabona & Mothebe vs NLM (Case 15)**

Opening balance	-	90,000
Paid during the year	-	(90,000)
	<u>-</u>	<u>-</u>

Litigation was in the process against the municipality for failing to comply to the arbitration award to reimburse the plaintiffs for damages suffered as a result of unlawful suspension and they are seeking damages to the amount disclosed above.

The municipality paid the plaintiff as per court order the amount of R90 000 on 24 January 2014.

Attorneys: ADW van den Berg Attorneys

#### **T Swart vs NLM (Case 16)**

Opening balance	-	850
Adjustment to opening balance	-	(850)
	<u>-</u>	<u>-</u>

Litigation was in the process against the municipality for damages caused to vehicle due to potholes and the complainant was seeking damages to the amount disclosed above.

The case was struck off the roll during 6 May 2011.

Attorneys: In-house

#### **LR Grobler vs NLM (Case 17)**

Opening balance	-	4,580
Adjustment to opening balance	-	(4,580)
	<u>-</u>	<u>-</u>

Litigation was in the process against the municipality relating to damages caused to movable properties due to power outage and the complainant is seeking damages to the amount disclosed above.

The municipality only received a email stating that a claim has been made, but the plaintiff never lodged a court order, case withdrawn on 12 January 2012.

Attorneys: In-house

#### **Coetsee vs NLM (Case 18)**

Opening balance	-	15,127
Adjustment to opening balance	-	(15,127)
	<u>-</u>	<u>-</u>

Litigation is in the process against the municipality for damages caused to vehicle due to potholes and the complainant is seeking damages to the amount disclosed above.

The municipality paid the plaintiff as per court order the amount of R15 127 on 8 April 2011.

Attorneys: In-house

#### **P du Plessis vs NLM (Case 19)**

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### 41. Contingencies (continued)

Balance - -

Litigation is in the process against the municipality whereby the municipality neglected to secure a trench dug by them in which the plaintiff fell and the complainant is seeking damages to the amount disclosed above

The municipality only received a email stating that a claim was made that a case was open but the plaintiff never lodged a court order.

Attorneys: In-house

#### Masilela vs NLM (Case 20)

Opening balance	-	731,524
Adjustment to opening balance	-	(731,524)
	-	-

Litigation is in the process against the municipality relating to an outstanding amount not settled and the complainant is seeking damages to the amount disclosed above.

The case was withdrawn due to the plaintiff neglecting to issue summons in court, case was resolved in 16 April 2012.

Attorney: In-house

#### Leshota vs NLM (Case 21)

Balance	-	100,000
Adjustment to opening balance	-	(100,000)
	-	-

Litigation is in the process against the municipality relating to damages to plaintiffs vehicle due to the absence of road signs and the complainant is seeking damages to the amount disclosed above.

The case was withdrawn due to the plaintiff neglecting to issue summons in court, case was resolved in 12 November 2011.

Attorneys: In-house

#### Stolen Believes vs NLM (Case 22)

Opening balance	-	32,229
Payments made during the year	-	(32,229)
	-	-

Litigation is in the process against the municipality relating to failure to affect payment on an outstanding amount and the complainant is seeking damages to the amount disclosed above.

The municipality paid the plaintiff as per court order the amount of R32 229 on 18 July 2013.

Attorneys: In-house

#### DDP Valuers vs NLM (Case 23)

Opening balance	-	254,020
Adjustment to opening balance	-	(254,020)
	-	-

Litigation is in the process against the municipality relating to failure to pay interest on a previous settlement and the complainant is seeking damages to the amount disclosed above.

The municipality paid the plaintiff as per court order the amount of R254 020 on 31 May 2012.

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### 41. Contingencies (continued)

Attorneys: Coetzer and Partners

#### EG Majiedt vs NLM (Case 24)

Opening balance	-	85,069
Payments made during the year	-	(85,069)
	<u>-</u>	<u>-</u>

Litigation is in the process against the municipality relating to a refund not made, the complainant is seeking damages to the amount disclosed above.

The municipality paid the plaintiff as per court order the amount of R85 069 on 18 September 2013.

Attorneys: In-house and Monika Vorster

#### Phonebook Company vs NLM (Case 25)

Opening balance	-	68,332
Adjustments to opening balance	-	(68,332)
	<u>-</u>	<u>-</u>

Litigation is in the process against the municipality relating to outstanding payments and the complainant is seeking damages to the amount disclosed above.

The municipality paid the plaintiff as per court order the amount of R68 332 on 5 September 2012.

Attorneys: In-house

#### A Vosloo vs NLM (Case 26)

Opening balance	-	30,174
Payments made during the year	-	(30,174)
	<u>-</u>	<u>-</u>

Litigation is in the process against the municipality relating to failure of supplying the plaintiff of his clearance certificate and the complainant is seeking damages to the amount disclosed above.

The municipality paid the plaintiff as per court order the amount of R30 174 on 31 October 2013.

Attorneys: ADW van den Berg Attorneys

#### Isintu Projects CC vs NLM (Case 27)

Opening balance	<u>233,870</u>	<u>233,870</u>
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Litigation is in the process against the municipality relating to outstanding payments and the complainant is seeking damages to the amount disclosed above.

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.

Attorneys: In-house

#### Clover SA vs NLM (Case 28)

Opening balance	-	2,951
Correction of opening balance	-	(2,951)
	<u>-</u>	<u>-</u>

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### 41. Contingencies (continued)

Litigation was in the process against the municipality neglecting to refund excess payment to the amount disclosed above.

The amount was paid back as per court order on 20 July 2012 and the case being resolved.

Attorney: In-house

#### **B McDermott vs NLM (Case 29)**

New contingency during the year

120,000

-

Case withdrawn

(120,000)

-

-

-

Litigation is in the process against the municipality relating to a lodged dispute with SALGBC after the municipality failed to encash his leave days to the amount disclosed above.

The case was withdrawn by the plaintiff and therefore resolved.

Attorneys: Lebea Incorporated

#### **Vincent Mokgosi vs NLM (Case 30)**

Opening balance

3,600

18,889

New contingency during the year

-

10,849

Payments made during the year

(3,600)

(26,138)

-

**3,600**

Litigation is in the process against the municipality relating to unfair dismissals and the complainant was seeking damages to the amount disclosed above.

The matter was resolved and the plaintiff was paid according to court order.

Attorney: JC Burger Attorneys

#### **New Team construction vs NLM (Case 31)**

Opening balance

-

191,000

Adjustments made to prior year opening balance

-

(191,000)

-

-

Litigation is in the process against the municipality relating to outstanding payments and the complainant is seeking damages to the amount disclosed above.

The municipality paid the plaintiff on 27 September 2012 the amount of R191 000.

Attorneys: In-house

#### **Mafunyane Wildlife CC vs NLM (Case 33)**

Opening balance

-

4,500

Increase in contingency

-

12,591

Payment made during the year

-

(17,091)

**Closing balance**

-

-

Litigation was in the process against the municipality relating to a complainant's vehicle which was badly damaged after driving into an urban area road allegedly full of potholes and was seeking damages to the amount disclosed above.

The municipality met the court order and paid the plaintiff on 30 May 2014.

Attorney: JC Burger Attorneys



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### 41. Contingencies (continued)

#### Mapetla Church congregations vs NLM (Case 34)

Opening balance	23,453	23,453
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Litigation is in the process against the municipality relating to land transferred to a splinter church of Mapetla. Mapetla approached high court to reverse the decision of the municipality to transfer land to the said splinter church and is seeking damages to the amount disclosed above.

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.

Attorney: In-house

#### Nashua Communications vs NLM (Case 35)

Opening balance	521,380	521,380
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Litigation is in the process against the municipality relating to outstanding payments and the complainant is seeking damages to the amount disclosed above.

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.

Attorney: Moroka Attorneys

#### GC Van Zyl vs NLM (Case 36)

Opening balance	44,020	44,020
Adjustments during the year	1,181	-
<b>Closing balance</b>	<b>45,201</b>	<b>44,020</b>

Litigation is in the process against the municipality relating to damages caused to movable properties due to power outage and the complainant is seeking damages to the amount disclosed above.

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 year.

Attorney: ADW van den Berg Attorneys

#### Sedgars vs NLM (Case 37)

Opening balance	139,204	144,007
Payments during the year	-	(4,803)
<b>Closing balance</b>	<b>139,204</b>	<b>139,204</b>

Litigation is in the process against the municipality relating to outstanding payments and the complainant is seeking damages to the amount disclosed above.

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.

Attorney: Steyn Lyell & Maeyane Attorneys

#### GH Manoto vs NLM (Case 38)

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<b>41. Contingencies (continued)</b>		
Opening balance	32,000	507,880
Paid during the year	-	(475,880)
	<b>32,000</b>	<b>32,000</b>

Litigation is in the process against the municipality relating to damages caused to a house and furniture due to a burst water pipe and the complainant is seeking damages to the amount disclosed above.

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.

Attorney: In-house

### JD Breytenbach vs NLM (Case 39)

Opening balance	18,107	32,000
Adjustments during the year	-	(13,893)
Payments made during the year	(18,107)	-
	<b>-</b>	<b>18,107</b>

Litigation was in the process against the municipality relating to a spoliation order whereby the municipality failed to comply and the complainant was seeking damages to the amount disclosed above.

The municipality paid the plaintiff the amount of R18 107 on 11 November 2014.

Attorneys: JC Burger

### State vs NLM (Case 40)

Opening balance	-	149,000
Payments made during the year	-	(149,000)
	<b>-</b>	<b>-</b>

Litigation was in the process against the municipality relating to a water spillage in Vredefort.

The municipality paid the plaintiff the amount of R149 000 on 24 March 2014.

Attorney: Mpfafi Khang Attorneys

### CJ de la Rey vs NLM (Case 41)

Opening balance	-	29,000
New contingency during the year	-	11,000
Payments made during the year	-	(40,000)
<b>Closing balance</b>	<b>-</b>	<b>-</b>

Litigation is in the process against the municipality relating to damages caused by power failure and the complainant is seeking damages to the amount disclosed above.

The municipality paid the plaintiff the amount of R40 000 on during the 2013/2014 financial year.

Attorneys: Mhlambi Attorneys

### J Senoamali & M Madondo vs NLM (Case 42)

Opening balance	-	350,000
Adjustments to prior year figures disclosed	-	(350,000)



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### 41. Contingencies (continued)

Litigation is in the process against the municipality relating to unfair dismissals and the complainant is seeking damages to the amount disclosed above.

The case has been resolved and the plaintiff was paid out.

Attorneys: Lebea and Associates

#### NLM vs TJ Mokoena (Case 47) - Contingent asset

Balance	125,000	125,000
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Litigation is in the process against Mr TJ Mokoena relating to unlawful, irregular and wasteful expenditure incurred on behalf of Ngwathe Local Municipality.

The municipality's lawyers and management consider the likelihood of the action against Mr TJ Mokoena being successful as likely, and the case should be resolved within the next two years.

Attorneys: Lebea & Associates

#### Vaal River Development Association vs NLM (Case 48)

Opening balance	563,699	1,500,000
Adjustments during the year	-	(866,710)
Payments during the year	(563,699)	(69,591)
<b>Closing balance</b>	<b>-</b>	<b>563,699</b>

Litigation is in the process against the municipality relating to S125 of the constitution of the RSA for failing to provide basic water services and the complainant is seeking damages to the amount disclosed above.

An agreed amount of R633290 was paid to settle the case.

Attorneys: Rampai Attorneys

#### Ensemble Trading 2053 CC vs NLM (Case 49)

Opening balance	150,000	1,629,072
Adjustments during the year	-	(1,479,072)
	<b>150,000</b>	<b>150,000</b>

Litigation is in the process against the municipality for storage costs not being paid and the complainant is seeking damages to the amount disclosed above.

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.

Attorney: In-house

#### Rankakhakile Jona Mohohlo vs NLM (Case 50)

Opening balance	16,994	16,994
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### 41. Contingencies (continued)

Litigation is in the process against the municipality for damages caused to vehicle due to potholes and the complainant is seeking damages to the amount disclosed above.

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 by September 2015.

Attorneys: Du Toit Mandelstam Incorporated

#### CA Claassens & A Claasens vs NLM (Case 51)

Opening balance	-	2,000,000
Case withdrawn during the year	-	(2,000,000)
	-	-

Litigation was in the process against the municipality for damages caused by a runaway fire and the complainants were seeking damages to the amount disclosed above.

The case was withdrawn on 29 May 2014 by the plaintiff.

Attorneys: In-house

### 42. Related parties

#### Relationships

Members of key management

Refer to note 26

Members of the Council

Refer to note 27

No related party transactions were identified by management.

Key management and Councillors receive and pay for service on the same terms and conditions as other rate payers. These transactions are recorded at arm's length.

### 43. Prior period errors

Property, Plant and Equipment were depreciated at the tax rates. The useful lives and residual values were not appropriately considered. (Give the nature of the error.)

#### Statement of financial position

Property, plant and equipment	-	1
Other 1	-	1
Other 2	-	1
Other 3	-	1
Opening Accumulated Surplus or Deficit	-	1
Deferred tax	-	1

#### Statement of Financial Performance

Depreciation expense	-	1
Other 1	-	1
Other 2	-	1
Other 3	-	1

### 44. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: credit, liquidity and market risk.

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### 44. Risk management (continued)

#### Liquidity risk

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

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.

At 30 June 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Other financial liabilities	2,181,704	4,122,303	-	-
Payables from exchange transactions	545,186,928	-	-	-
Unspent conditional grants and receipts	76,179	-	-	-

  

At 30 June 2014	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Other financial liabilities	2,329,700	6,304,008	-	-
Payables from exchange transactions	376,407,873	-	-	-
Unspent conditional grants and receipts	5,638,482	-	-	-

#### Credit risk

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

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

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

Financial instrument	2015	2014
Receivables from exchange transactions	39,173,751	29,669,962
Receivables from non-exchange transactions	18,425,133	14,317,774
Cash and cash equivalents	3,085,216	7,975,595
Other financial assets	1,501,112	1,418,147

#### Market risk

##### Interest rate risk

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

### 45. Going concern

We draw attention to the fact that at 30 June 2015, the municipality had accumulated deficits of R 223,942,657 and that the municipality's total liabilities exceed its assets by R 223,942,657.

The 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.

# Ngwathe Local Municipality

(Registration number FS203)

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## Notes to the Financial Statements

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### 45. Going concern (continued)

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.

### 46. Events after the reporting date

Management is not aware of any events that happened after the reporting date that requires disclosure.

### 47. Unauthorised expenditure

Opening balance	410,107,067	-
Add: Unauthorised Expenditure - current year	266,727,757	410,107,067
	<b>676,834,824</b>	<b>410,107,067</b>

### 48. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	78,660,399	46,023,332
Add: Fruitless and Wasteful Expenditure - current year	51,248,897	32,637,067
	<b>129,909,296</b>	<b>78,660,399</b>

#### Detail of fruitless and wasteful expenditure incurred in the current year

Eskom	45,966,230
Rand Water	26,856
AGSA	362,817
SALA Pension Fund	3,336
SARS - PAYE (Penalties and interest)	4,248,392
SARS - VAT (Penalties and interest)	641,203
Other interest	63
	<b>51,248,897</b>

### 49. Irregular expenditure

Opening balance	31,035,110	15,417,665
Add: Irregular Expenditure - current year	3,366,081	15,617,445
	<b>34,401,191</b>	<b>31,035,110</b>

#### Analysis of expenditure awaiting condonation per age classification

Current year	3,366,081	15,617,445
Prior years	31,035,110	15,417,665
	<b>34,401,191</b>	<b>31,035,110</b>

#### Details of irregular expenditure – current year

		<b>Irregular expenditure still under investigation</b>
Price: R2,000 to R10,000	Non-compliance to the Supply Chain Policy	16,639
Price: R10,001 to R30,000	Non-compliance to the Supply Chain Policy	134,594
Price: R30,001 to R199,999	Non-compliance to the Supply Chain Policy	3,214,848
		<b>3,366,081</b>

# Ngwathe Local Municipality

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

#### Contributions to organised local government

Opening balance	347,320	296,406
Current year subscription / fee	1,408,655	1,238,779
Amount paid - current year	(1,320,680)	(1,187,865)
	<b>435,295</b>	<b>347,320</b>

#### Audit fees

Opening balance	3,791,345	2,877,126
Audit fees	5,457,228	5,013,990
Interest charged	362,617	209,357
Amount paid - current year	(1,989,014)	(1,452,117)
Amount paid - previous years	(1,616,457)	(2,857,012)
	<b>6,005,719</b>	<b>3,791,344</b>

#### PAYE and UIF

Opening balance	26,749,488	24,408,166
Current year subscription / fee	24,931,114	24,443,564
Amount paid	(31,818,189)	(22,102,243)
	<b>19,862,413</b>	<b>26,749,487</b>

#### VAT

VAT receivable	14,998,639	9,295,689
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All VAT returns have been submitted by the due date throughout the year.



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Financial Statements for the year ended 30 June 2015

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

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days as at 30 June 2015:

#### 30 June 2015

	<b>Outstanding more than 90 days R</b>
Mandelstam GP	2,621
Mofokeng J	698
Molotsane AM	1,003
Ndlovu NA	7,120
Oliphant AM	1,560
Seabi IM	6,475
Sothoane EC	2,621
Vandisi TL	4,556
	<b>26,654</b>

#### 30 June 2014

	<b>Outstanding more than 90 days R</b>
Bocibo C	8,804
Choni PS	3,676
De Beer V	495
Khumalo KJ	707
Magashule ME	1,532
Mandelstam GP	491
Mbele M	209
Mehlo LR	1,655
Mofokeng MD	4,567
Mofokeng ML	2,200
Moloko D	2,524
Molotsane J	27,769
Mopedi NP	279
Motsumi M	80,052
Ndayi PR	3,396
Ndlovu NA	3,775
Oliphant AM	5,037
Radebe M	166
Ranthako MC	1,634
Schoonwinkel HJ	1,896
Seabi IM	10,923
Serati KM	219
Sothoane EC	12,051
Spence DL	586
Tiadi LL	1,228
Vandisi TL	13
Vandisi TL	2
Vermaak SM	2,084
	<b>177,970</b>

### 51. Budget differences

#### Material differences between budget and actual amounts

# Ngwathe Local Municipality

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## Notes to the Financial Statements

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### 51. Budget differences (continued)

The following explanations are for material differences (>10%) between actual and budgeted amounts:

X1 - Deterioration of the municipal buildings that lead to less public interest to the municipal facilities. People moved out of municipal hostels and do not make use of municipal guest houses.

X2 - Municipality anticipated to cash all the investments during 30 June 2015 but was only cashed in 30 June 2016 financial year end.

X3 - Municipality intended to sell the land during 30 June 2015 but the process was stopped by council.

X4 - Municipality only budget interest on anticipated savings that municipality had and not on the debtors accounts.

X5 - Budget was based on the old valuation roll with old market values and new valuation roll was implemented on 01 July 2014.

X6 - Municipality had a plan to buy more cameras and ensure that speed cameras are calibrated in time to ensure increase on revenue from traffic fines.

X7 - Under budgeted for.

X8 & X9 - Depreciation and impairments were budgeted together. Municipality anticipated collecting more debts than prior year and less impairment on debts.

X10 - Municipality had a plan in place to settle the Eskom accounts and less interest were to be incurred during the year.

X11 - More indigent debts were prescribed than the debts that were budgeted for.

X12 - Old infrastructure and vehicles that require repairs and maintenance from time to time.

X13 - Over budgeting of contracted services.

X14 - More provision on rehabilitation of landfill site. This is due to new rules and regulations as per engineers report affecting the 2014/2015 financial year.

X15 - No loss of assets were anticipated after the assets were auctioned in 30 June 2014 financial year end.

X16 - No budget was made for fair value adjustments.

X17 - No budget was made for actuarial gains and losses.

X18 - No budget was made for inventory losses and write downs