



Nongoma Local Municipality
Annual Financial Statements
for the year ended 30 June 2016

Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

General Information

Country of incorporation and domicile	South Africa
Legal form of entity	Municipality (Local Government)
Executive committee	His Worship Mayor Cllr JB Mvundla Honourable Deputy Mayor Cllr TB Nyoka Honourable Speaker Cllr NA Mchunu Cllr SC Mataba Cllr ME Ndwandwe Cllr SM Zulu Cllr WS Zungu Cllr NC Ntshangase Cllr HS Ngwenya Cllr MV Ntombela Cllr BJ Ntshangase Cllr M Zungu Cllr EM Masango Cllr GB Nyembe (Deceased - May 2016) Cllr TJ Khumalo Cllr DV Gabuza Cllr NS Manqele Cllr MV Zulu Cllr NF Zulu Cllr NI Mtshali Cllr MA Gumbi Cllr TM Dladla Cllr QM Dlamini Cllr SB Gumbi Cllr NF Zungu Cllr ZH Ntuli Cllr MS Majola Cllr BW Zulu Cllr BD Ngubo Cllr Khanyi Cllr DL Khoza Cllr PD Ndlovu Cllr V Zulu Cllr MN Sokhela Cllr Z Mthethwa Cllr RF Myeza Cllr SJ Zulu Cllr DT Mpanza Cllr M Gcina Cllr AN Xulu Cllr NG Xaba Cllr NM Nzimande
Councillors	
Grading of local authority	3
Accounting Officer	Mr BE Ntanzi
Chief Finance Officer (CFO)	Mr MPE Mthembu

Nongoma Local Municipality

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General Information

Registered office	PO Box 84 Nongoma 3950
Business address	103 Main Road Nongoma 3950
Auditors	Auditor General of South Africa
Attorneys	M Magigaba Incorporated
Business Telephone	035 831 7500
Business Fax	035 831 3152

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

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised 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)
NDPG	Neighbourhood Development Partnership Grant
EPWP	Expanded Public Works Programme
FMG	Financial Management Grant

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Accounting Officer's Responsibilities and Approval

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

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

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

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

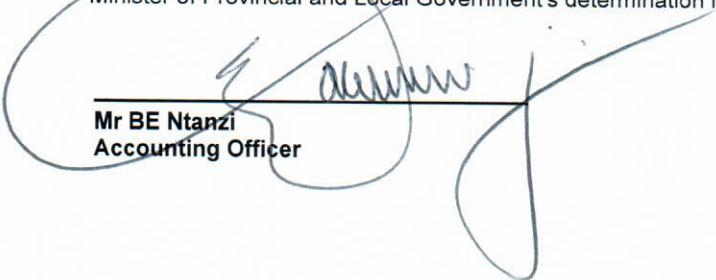
The accounting officer is of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2017 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 external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors.

The annual financial statements set out on page 5 to 62 which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed on behalf of the municipality

I also certify that salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office as disclosed in the Annual Financial Statements below are within the upper limits of the framework envisaged in Section 219 of the Constitution, read in conjunction with the Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.


Mr BE Ntanzi
Accounting Officer

Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Financial Position as at 30 June 2016

Rands	Note(s)	2016	2015 Restated*
Assets			
Current Assets			
VAT receivable	9	4 050 430	417 445
Sundry debtors	7	530 130	395 544
Consumer debtors	10	21 858 157	15 298 845
Prepayments	8	308 520	527 640
Cash and cash equivalents	11	6 545 788	15 677 729
		33 293 025	32 317 203
Non-Current Assets			
Property, plant and equipment	3	296 963 468	255 167 239
Intangible assets	4	457 540	176 923
		297 421 008	255 344 162
Total Assets		330 714 033	287 661 365
Liabilities			
Current Liabilities			
Finance lease obligation	12	105 052	173 374
Operating lease liability	5	224 256	95 578
Payables from exchange transactions	17	15 119 572	17 012 603
Unspent conditional grants and receipts	13	220 700	15 558 901
Provisions	14	538 639	438 282
Instalment sale agreement	15	53 918	333 135
Retentions	16	245 509	-
		16 507 646	33 611 873
Non-Current Liabilities			
Finance lease obligation	12	47 279	9 517
Employee benefit obligation	6	3 069 448	1 828 423
Provisions	14	6 268 605	5 845 215
Instalment sale agreement	15	-	26 763
		9 385 332	7 709 918
Total Liabilities		25 892 978	41 321 791
Net Assets		304 821 055	246 339 574
Net Assets			
Accumulated surplus		304 821 055	246 339 574

* See Note 39

Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Financial Performance

Rands	Note(s)	2016	2015 Restated*
Revenue			
Service charges	21	1 685 461	1 654 134
Rental of facilities and equipment		59 923	120 688
Interest received on Outstanding Debtors		2 120 594	1 896 522
Licences and permits		667 973	625 053
Other income		730 204	453 182
Interest received		1 813 802	1 138 343
Property rates	20	18 230 205	14 729 173
Government grants & subsidies	22	176 812 201	144 129 911
Fines, Penalties and Forfeits		281 223	587 829
Total revenue		202 401 586	165 334 835
Expenditure			
Employee related costs	25	(67 668 060)	(49 764 106)
Remuneration of councillors	26	(12 494 879)	(11 276 904)
Depreciation and amortisation	29	(9 872 371)	(9 722 573)
Impairment loss/ Reversal of impairments	30	(523 481)	(2 023 155)
Finance costs	31	(128 738)	(141 281)
Lease rentals on operating lease		(3 491 008)	(2 101 197)
Debt Impairment	27	(1 807 406)	(1 611 740)
Repairs and maintenance		(6 370 572)	(6 630 292)
Contracted services		(5 957 433)	(4 270 766)
Transfers and Subsidies		(876 383)	(312 542)
General Expenses	24	(34 363 657)	(32 356 603)
Total expenditure		(143 553 988)	(120 211 159)
Operating surplus			
Loss on disposal of assets		(211 427)	-
Fair value adjustments	28	-	86 959
		(211 427)	86 959
Surplus for the year		58 636 171	45 210 635

* See Note 39

Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Changes in Net Assets

Rands	Accumulated surplus	Total net assets
Opening balance as previously reported	216 678 611	216 678 611
Adjustments		
Correction of errors	(62 708)	(62 708)
Prior year adjustments on Performance bonuses	(239 491)	(239 491)
Balance at 1 July 2014	216 376 412	216 376 412
Changes in net assets		
NDPG overspent write-off	(13 703 141)	(13 703 141)
Prior year error - Land sales	16 666	16 666
Restated NDPG unspent balance	(1 561 000)	(1 561 000)
Surplus for the year - restated	45 210 635	45 210 635
Total recognised income and expenses for the year	29 963 160	29 963 160
Total changes	29 963 160	29 963 160
Restated* Balance at 01 July 2015	246 339 574	246 339 574
Changes in net assets		
Adjustments directly to Accumulated Surplus	(154 690)	(154 690)
Net income (losses) recognised directly in net assets	(154 690)	(154 690)
Surplus for the year	58 636 171	58 636 171
Total recognised income and expenses for the year	58 481 481	58 481 481
Total changes	58 481 481	58 481 481
Balance at 30 June 2016	304 821 055	304 821 055

* See Note 39

Nongoma Local Municipality
 Annual Financial Statements for the year ended 30 June 2016

Cash Flow Statement

Rands	Note(s)	2016	2015 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		14 109 021	13 603 143
Grants		161 474 000	148 153 800
Interest income		1 813 802	1 138 343
Other receipts	34	1 202 300	517 522
		178 599 123	163 412 808
Payments			
Employee costs		(78 985 743)	(59 416 614)
Suppliers		(58 270 336)	(49 233 588)
Finance costs		(128 738)	(141 281)
		(137 384 817)	(108 791 483)
Net cash flows from operating activities	33	41 214 306	54 621 325
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(49 516 773)	(36 682 838)
Purchase of other intangible assets	4	(492 934)	-
Net cash flows used on investing activities		(50 009 707)	(36 682 838)
Cash flows from financing activities			
Movement in instalment sale agreement		(305 980)	(280 889)
Movement in financial liabilities		-	(2 700 000)
Movement in finance lease liabilities		(30 560)	(239 787)
Net cash flows from financing activities		(336 540)	(3 220 676)
Net increase/(decrease) in cash and cash equivalents		(9 131 941)	14 717 811
Cash and cash equivalents at the beginning of the year		15 677 729	959 918
Cash and cash equivalents at the end of the year	11	6 545 788	15 677 729

* See Note 39

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Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand '000						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	1 678 860	-	1 678 860	1 685 461	6 601	
Rental of facilities and equipment	172 106	(88 382)	83 724	59 923	(23 801)	
Interest received (trading)	1 243 954	369 927	1 613 881	3 934 396	2 320 515	
Licences and permits	670 888	-	670 888	667 973	(2 915)	
Other income	206 000	178 719	384 719	730 204	345 485	
Total revenue from exchange transactions	3 971 808	460 264	4 432 072	7 077 957	2 645 885	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	16 740 021	3 013 517	19 753 538	18 230 205	(1 523 333)	
Transfer revenue						
Government grants & subsidies	172 015 000	-	172 015 000	176 812 201	4 797 201	
Fines, Penalties and Forfeits	2 953 149	(37 781)	2 915 368	281 223	(2 634 145)	
Total revenue from non-exchange transactions	191 708 170	2 975 736	194 683 906	195 323 629	639 723	
Total revenue	195 679 978	3 436 000	199 115 978	202 401 586	3 285 608	
Expenditure						
Personnel	(56 681 000)	(6 551 000)	(63 232 000)	(67 668 060)	(4 436 060)	
Remuneration of councillors	(11 995 756)	-	(11 995 756)	(12 494 879)	(499 123)	
Depreciation and amortisation	(18 330 302)	5 387 295	(12 943 007)	(9 872 371)	3 070 636	
Impairment loss/ Reversal of impairments	(1 818 568)	-	(1 818 568)	(523 481)	1 295 087	
Finance costs	(19 468)	(4 000)	(23 468)	(128 738)	(105 270)	
Lease rentals on operating lease	-	-	-	(3 491 008)	(3 491 008)	
Bad debts written off	-	-	-	(1 807 406)	(1 807 406)	
Repairs and maintenance	-	-	-	(6 370 572)	(6 370 572)	
Contracted Services	(14 785 328)	(2 189 155)	(16 974 483)	(5 957 433)	11 017 050	
Transfers and Subsidies	(207 411)	-	(207 411)	(876 383)	(668 972)	
General Expenses	(38 929 100)	545 602	(38 383 498)	(34 363 657)	4 019 841	
Total expenditure	(142 766 933)	(2 811 258)	(145 578 191)	(143 553 988)	2 024 203	
Operating surplus	52 913 045	624 742	53 537 787	58 847 598	5 309 811	
Loss on disposal of assets and liabilities	-	-	-	(211 427)	(211 427)	
Surplus before taxation	52 913 045	624 742	53 537 787	58 636 171	5 098 384	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	52 913 045	624 742	53 537 787	58 636 171	5 098 384	

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand - Budget rounded to the nearest R 1 000						
Statement of Financial Position						
Assets						
Current Assets						
Receivables from non-exchange transactions	518 388	432 219	950 607	530 130	(420 477)	
VAT receivable	-	-	-	4 050 430	4 050 430	
Consumer debtors	13 737 563	5 784 000	19 521 563	21 858 158	2 336 595	
Prepayments	-	-	-	308 520	308 520	
Cash and cash equivalents	20 399 363	(9 760 345)	10 639 018	6 545 788	(4 093 230)	
	34 655 314	(3 544 126)	31 111 188	33 293 026	2 181 838	
Non-Current Assets						
Property, plant and equipment	300 957 574	2 884 838	303 842 412	296 963 468	(6 878 944)	
Intangible assets	113 943	358 634	472 577	457 540	(15 037)	
	301 071 517	3 243 472	304 314 989	297 421 008	(6 893 981)	
Total Assets	335 726 831	(300 654)	335 426 177	330 714 034	(4 712 143)	
Liabilities						
Current Liabilities						
Finance lease obligation	52 060	(25 297)	26 763	105 052	78 289	
Operating lease liability	-	-	-	224 256	224 256	
Payables from exchange transactions	17 860 299	(2 284 155)	15 576 144	15 119 572	(456 572)	
Unspent conditional grants and receipts	-	-	-	220 700	220 700	
Provisions	1 345 528	(1 237 557)	107 971	538 639	430 668	
Instalment sale agreement	-	-	-	53 918	53 918	
Retentions	-	-	-	245 509	245 509	
	19 257 887	(3 547 009)	15 710 878	16 507 646	796 768	
Non-Current Liabilities						
Finance lease obligation	-	-	-	47 279	47 279	
Employee benefit obligation	-	-	-	3 069 448	3 069 448	
Provisions	4 267 534	3 308 625	7 576 159	6 268 605	(1 307 554)	
	4 267 534	3 308 625	7 576 159	9 385 332	1 809 173	
Total Liabilities	23 525 421	(238 384)	23 287 037	25 892 978	2 605 941	
Net Assets	312 201 410	(62 270)	312 139 140	304 821 056	(7 318 084)	
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	312 201 410	(62 270)	312 139 140	304 821 055	(7 318 085)	

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand - Budget rounded to the nearest R 1 000						

Cash Flow Statement

Cash flows from operating activities

Receipts

Sales of goods and services	1 259 000	-	1 259 000	-	(1 259 000)
Rate Payers & Other	14 472 130	2 331 367	16 803 497	14 109 021	(2 694 476)
Grants- operational	129 124 000	-	129 124 000	124 783 000	(4 341 000)
Interest income	1 243 954	369 927	1 613 881	1 813 802	199 921
Other receipts	1 403 131	(20 403)	1 382 728	1 202 300	(180 428)
Grants - Capital	42 891 000	-	42 891 000	36 691 000	(6 200 000)
	190 393 215	2 680 891	193 074 106	178 599 123	(14 474 983)

Payments

Suppliers & Employees	(127 071 701)	(8 770 625)	(135 842 326)	(137 304 399)	(1 462 073)
Finance costs	(19 468)	(4 000)	(23 468)	(128 738)	(105 270)
	(127 091 169)	(8 774 625)	(135 865 794)	(137 433 137)	(1 567 343)
Net cash flows from operating activities	63 302 046	(6 093 734)	57 208 312	41 165 986	(16 042 326)

Cash flows from investing activities

Purchase of property, plant and equipment	(47 873 000)	(14 041 034)	(61 914 034)	(49 468 453)	12 445 581
Purchase of other intangible assets	-	-	-	(492 934)	(492 934)
Net cash flows from investing activities	(47 873 000)	(14 041 034)	(61 914 034)	(49 961 387)	11 952 647

Cash flows from financing activities

Repayment of other financial liabilities	(325 837)	(7 298)	(333 135)	(336 540)	(3 405)
Net increase/(decrease) in cash and cash equivalents	15 103 209	(20 142 066)	(5 038 857)	(9 131 941)	(5 325 314)
Cash and cash equivalents at the beginning of the year	5 296 007	10 381 722	15 677 729	15 677 729	-
Cash and cash equivalents at the end of the year	20 399 216	(9 760 344)	10 638 872	6 545 788	(5 325 314)

Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Significant judgements and sources of estimation uncertainty

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

Fair value estimation

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

Impairment testing

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

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

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 14 - Provisions.

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

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 6.

Allowance for doubtful debts

An estimate is made for doubtful debts based on past default experience of all outstanding amounts at year-end excluding amounts due from government departments. In determining the recoverability of a receivable, the municipality considers any change in the credit quality of the receivable from the date on which the credit was initially granted up to the reporting date. On debtors, an impairment loss is recognised in surplus and deficit when there is objective evidence that the debtors are 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.

The allowance for doubtful debts takes into account the following in determining their recoverability:

- All reasonable notifications and cost-effective legal avenues have been exhausted to recover a specific outstanding amount;
- Any amount equal to or less than R500.00, or as determined by Council from time to time, will be considered too small, after having followed basic checks, to warrant further endeavours to collect it;
- The cost to recover the debt does not warrant further action;
- It has been proven that the debt has prescribed;
- The debtor is untraceable or cannot be identified so as to proceed with further action;
- The debtor has emigrated leaving no assets of value to cost-effectively recover the Municipality's claim;
- It is not possible to prove the debt outstanding;
- A court has ruled that the claim is not recoverable;
- The claim is subject to any order of court;
- The claim is subject to an out of court settlement agreement;
- The debt is subject to a settlement in terms of section 109 of the Systems Act;
- The Municipality has resolved that the debt is irrecoverable;

Going Concern Assumption

These annual financial statements have been prepared on a going concern basis. In determining the going concern of the municipality the following has been considered:

- The debt to asset ratio
- The liquidity ratio
- The cash coverage of the municipality
- The cash flow position of the municipality
- The collection rate

Any other information that may come to light in the management of the municipality that may affect the going concern

1.3 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.

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Accounting Policies

1.3 Property, plant and equipment (continued)

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses. Work in progress is stated at cost. Total costs of completed projects are transferred from work in progress to relevant category or class of assets.

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

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
• Land		25-30 years
• Buildings		7 years
Motor vehicles	Straight line	10-50 years
Infrastructure	Straight line	4-5 years
• Roads		7-10 years
Other property, plant and equipment	Straight line	5 years
• Machinery & Equipment		
• Furniture and Equipment		
• Computers		

The residual value, 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.

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1.3 Property, plant and equipment (continued)

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

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

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

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

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

1.4 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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

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

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

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

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

Accounting Policies

1.4 Intangible assets (continued)

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Useful life
Computer software, other	5 years

Intangible assets are derecognised:

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

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised.

1.5 Financial instruments

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

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

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

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

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

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

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

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

A financial asset is:

- cash;

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Accounting Policies

1.5 Financial instruments (continued)

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

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

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

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

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 a municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

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

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

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

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

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

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

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

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

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.

Classification

The classification of financial assets depends on their nature and purpose and is determined at the time of initial recognition.

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Accounting Policies

1.5 Financial instruments (continued)

Initial recognition

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

Initial measurement of financial assets and financial liabilities

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

The municipality measures a financial asset and financial liability initially at its fair value.

Subsequent measurement of financial assets and financial liabilities

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

- Financial instruments at 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.

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 non-collectability of financial assets

The municipality 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 through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

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

Financial assets measured at cost:

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

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Accounting Policies

1.5 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises a financial asset only when:

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

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

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

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

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

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

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

Financial liabilities

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

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

Accounting Policies

1.5 Financial instruments (continued)

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

Presentation

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

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

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

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

1.6 Leases

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

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

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 lessee 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 entity's incremental borrowing rate.

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.

Accounting Policies

1.6 Leases (continued)

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.

1.7 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

Useful life is either:

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

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:
[Specify criteria]

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.

Accounting Policies

1.7 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.

Restoration cost approach

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

Service units approach

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Accounting Policies

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

1.8 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

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 expected cost of performance related payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the scheme is equivalent to those arising in a defined contribution retirement benefit plan.

Accounting Policies

1.8 Employee benefits (continued)

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

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

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

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

1.9 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

Accounting Policies

1.9 Provisions and contingencies (continued)

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.

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.

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.

Accounting Policies

1.9 Provisions and contingencies (continued)

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, the 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.

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 and 1.7.

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.

1.10 Revenue from exchange transactions

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

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

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

Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.10 Revenue from exchange transactions (continued)

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

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

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

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

Interest

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends 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.

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

1.11 Revenue from non-exchange transactions

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

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

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

Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.11 Revenue from non-exchange transactions (continued)

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

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

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

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

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

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

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

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

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

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

Recognition

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

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

Measurement

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

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

Accounting Policies

1.11 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.

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

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

Debt forgiveness and assumption of liabilities

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

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

Fines

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

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

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

1.12 Borrowing costs

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

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

1.13 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year as per note 35 - Prior period error.

1.14 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.15 Fruitless and wasteful expenditure

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

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

Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.16 Irregular expenditure

Irregular expenditure as defined in section 1 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 and the Municipal Systems Act and has not been condoned by the said Acts; or
- (b) the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
- (c) the requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law.

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.

1.17 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised 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.

1.18 Budget information

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

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

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

The approved budget covers the fiscal period from 2015/07/01 to 2016/06/30.

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

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

1.19 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.

The relationships above as well as transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.20 Commitments

The municipality will disclose authorised operational and capital expenditure, that which has been approved and contracted for and that which has been approved and not yet contracted for. Outstanding operating lease commitments owing by the municipality and the periods in which payments fall due will also be disclosed.

Accounting Policies

1.21 Events after the reporting date

Events after the reporting date are those events both favourable and unfavourable, that occur between the reporting date and the date when the annual financial statements are authorised for issue. The entity will adjust the amounts recognised in the annual financial statements to reflect adjusting events after the reporting date once the event occurred.

Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Rands	2016	2015 Restated*
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2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year (effective from 1 April 2016) and that are relevant to its operations:

Standard/ Interpretation:

- GRAP 1 Presentation of Financial Statements
- GRAP 2 Cash Flow Statement
- GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors
- GRAP 9 Revenue from Exchange Transactions
- GRAP 13 Leases
- GRAP 14 Events After the Reporting Date
- GRAP 17 Property Plant and Equipment
- GRAP 19 Provisions, Contingent Liabilities and Contingent Assets
- GRAP 21 Impairment of Non-cash-generating Assets
- GRAP 23 Revenue from Non-exchange Transactions (Taxes and Transfers)
- GRAP 24 Presentation of Budget Information in Financial Statements
- GRAP 25 Employee Benefits
- GRAP 26 Impairment of Cash-generating assets
- GRAP 31 Intangible Assets
- GRAP 104 Financial Instruments

2.2 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 20: Related parties	01 July 2016	The adoption of this standard has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements

2.3 Standards and interpretations issued but not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2016 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 32: Service Concession Arrangements: Grantor	01 July 2016	Currently not relevant
• GRAP 108: Statutory Receivables	01 July 2016	Currently not relevant
• GRAP 109: Accounting by Principals and Agents	01 July 2016	Currently not relevant

Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Rands

3. Property, plant and equipment

		2016		2015	
		Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation
Land and Buildings		99 470 499	(37 344 633)	62 125 866	98 610 501
Infrastructure		107 081 322	(19 293 828)	87 787 494	88 455 259
Other property, plant and equipment		15 546 907	(9 093 261)	6 453 646	13 143 744
Leased Assets		866 024	(732 884)	133 140	676 293
Assets Under Construction		150 938 568	(10 475 246)	140 463 322	121 766 304
Total		373 903 320	(76 939 852)	296 963 468	322 652 101
					(67 484 862)
					255 167 239

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Newly identified	Disposals	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land and Buildings	62 452 221	315 000	-	-	393 266	-	(3 575 786)	2 541 165	62 125 866
Infrastructure	75 868 690	1 470 600	-	-	17 155 461	-	(4 704 050)	(2 003 207)	87 787 494
Other property, plant and equipment	5 369 699	3 446 545	48 320	(211 427)	-	-	(1 329 887)	(869 604)	6 453 646
Leased Assets	185 572	189 732	-	-	-	-	(55 908)	(186 256)	133 140
Assets Under Construction	111 291 057	47 016 305	-	-	(17 548 727)	(295 313)	-	-	140 463 322
	255 167 239	52 438 182	48 320	(211 427)	-	(295 313)	(9 665 631)	(517 902)	296 963 468

Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Rands

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Newly Identified	Disposals	Transfers	Depreciation	Impairment loss	Total
Land and Buildings	54 573 719	-	-	-	13 734 633	(4 037 921)	(1 818 210)	62 452 221
Infrastructure	76 848 528	-	-	-	3 099 101	(3 873 995)	(204 944)	75 868 690
Other property, plant and equipment	5 174 217	1 537 518	86 960	(7 788)	-	(1 421 208)	-	5 369 699
Leased Assets	380 908	105 804	-	-	-	(301 140)	-	185 572
Assets Under Construction	93 085 275	35 039 516	-	-	(16 833 734)	-	-	111 291 057
	230 062 647	36 682 838	86 960	(7 788)	-	(9 634 264)	(2 023 154)	255 167 239

4. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	1 384 535	(926 995)	457 540	891 601	(714 678)	176 923

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Impairment loss	Total
Computer software, other	176 923	492 934	(206 739)	(5 578)	457 540

Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Rands	2016	2015 Restated*
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4. Intangible assets (continued)

Reconciliation of intangible assets - 2015

	Opening balance	Amortisation	Total
Computer software, other	265 231	(88 308)	176 923

5. Operating lease liability

Operating lease liability	(224 256)	(95 578)
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Operating lease payments are recognised on a straight-line basis. As a result, a lease accrual is recognised to account for a difference between amount recognised as an expense and the contractual payments.

6. Employee benefit obligations

Defined benefit plan

The Municipality's personnel are members of the Natal Joint Pension retirement funds, including the Supernannuation Retirement and Provident Fund. As the aforementioned funds are multi-employer funds, the allocation of any surplus/deficit to the individual Municipalities cannot be determined. Furthermore disclosure of further details such as actuarial assumptions, cannot be attributed to any specific municipality and is of no relevance to users of the municipality's financial statements. As the required disclosure information cannot be obtained the funds are all treated as defined contribution plans. An independent valuer carries out a statutory valuation of the NJMPF on a tri-annual and an interim valuation on an annual basis. The 2013 interim valuations have not yet been released.

Long Term Service Awards Benefits

The municipality has a policy to provide long service awards to employees who are continuously at the employment of the municipality based on the prescribed periodic brackets. The award is the remuneration of the employee as at the date of the award.

The discount rate used is based on market yields on government bonds as at the end of June 2015 as published by the Bond Exchange of South Africa. The salary escalation rate is based on underlying market inflation plus an allowance for the fact that on average salary increases generally exceed inflation. Factored into the valuation are also the demographic and mortality assumptions.

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

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

Opening balance	1 828 423	2 409 423
Service cost	284 000	345 000
Interest cost	156 000	182 000
Benefits paid	(155 000)	(299 000)
Actuarial (gain)/loss	956 025	(809 000)
	3 069 448	1 828 423

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9,20 %	8,50 %
Expected increase in salaries	8,50 %	8,20 %

Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

	Rands	2016	2015 Restated*
7. Sundry debtors			
Library fines		362	31
Staff debtors		288 783	4 995
Other receivables		89 672	102 993
Sundry debtors		338 656	336 829
Traffic fines		1 176 542	912 142
Provision for doubtful debts		(1 363 885)	(961 446)
		530 130	395 544

During the year unallocated receipts amounting to R374 634 (2014/2015: R342 356) have been reclassified from receivables to payables. Prior year figure also included a negative amount (R16 667) for land sales which were incorrectly recorded and the error was corrected in the current year.

8. Prepayments

Prepaid expenses	308 520	527 640
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Accommodation for SALGA games and medical aid paid in advance.

9. VAT receivable

VAT	4 050 430	417 445
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The comparative figure of the previous year has been restated due to correction of rentals for 2014/2015 period which were not raised as accruals. The 2015 amount of R417 445 has been restated from R386 446.

10. Consumer debtors

Gross balances

Rates	23 786 326	16 682 601
Refuse	8 790 136	7 981 910
Service levies	441 886	426 599
	33 018 348	25 091 110

Less: Allowance for impairment

Rates	(5 869 179)	(4 474 714)
Refuse	(4 999 113)	(5 025 652)
Service levies	(291 899)	(291 899)
	(11 160 191)	(9 792 265)

Net balance

Rates	17 412 684	12 207 887
Refuse	3 791 023	2 956 258
Service levies	654 450	134 700
	21 858 157	15 298 845

Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Rands	2016	2015 Restated*
10. Consumer debtors (continued)		
Rates		
Current (0 -30 days)	586 221	68 642
31 - 60 days	299 714	296 492
61 - 90 days	109 163	206 887
91 - 120 days	(1 316 185)	375 495
121 - 365 days	97 630	15 735 086
> 365 days	24 009 784	-
	23 786 327	16 682 602
Refuse		
Current (0 -30 days)	110 588	78 624
31 - 60 days	66 972	106 975
61 - 90 days	95 890	64 636
91 - 120 days	63 594	118 147
121 - 365 days	81 422	7 613 528
> 365 days	8 371 670	-
	8 790 136	7 981 910
Service levies		
Current (0 -30 days)	2 622	5 373
31 - 60 days	1 322	3 023
61 - 90 days	(9 377)	1 047
91 - 120 days	338	8 069
121 - 365 days	(300)	409 087
> 365 days	447 281	-
	441 886	426 599

Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

	Rands	2016	2015 Restated*
10. Consumer debtors (continued)			
Summary of debtors by customer classification			
Consumers			
Current (0 -30 days)	925 271	822 102	
31 - 60 days	851 526	777 959	
61 - 90 days	909 793	799 526	
91 - 120 days	731 361	873 858	
121 - 365 days	939 065	16 209 253	
> 365 days	25 670 002	-	
	30 027 018	19 482 698	
Less: Allowance for impairment	(11 160 191)	(9 792 265)	
	18 866 827	9 690 433	
Industrial/ commercial			
Current (0 -30 days)	(294 386)	(733 320)	
31 - 60 days	(551 788)	(433 116)	
61 - 90 days	(593 437)	(582 680)	
91 - 120 days	(2 583)	(428 004)	
121 - 365 days	(641 609)	(3 019 797)	
> 365 days	(9 409 655)	-	
	(11 493 458)	(5 196 917)	
National and provincial government			
Current (0 -30 days)	68 546	63 857	
31 - 60 days	68 271	61 648	
61 - 90 days	(120 681)	55 724	
91 - 120 days	(1 981 031)	55 857	
121 - 365 days	(118 705)	10 568 242	
> 365 days	16 568 388	-	
	14 484 788	10 805 328	
Total			
Current (0 -30 days)	699 431	152 639	
31 - 60 days	368 009	406 491	
61 - 90 days	195 675	272 570	
91 - 120 days	(1 252 252)	501 711	
121 - 365 days	178 751	23 757 698	
> 365 days	32 828 734	-	
	33 018 348	25 091 109	
Less: Allowance for impairment	(11 160 191)	(9 792 265)	
	21 858 157	15 298 844	
Reconciliation of allowance for impairment			
Balance at beginning of the year	(9 792 265)	(8 651 086)	
Contributions to allowance	(1 367 926)	(1 141 179)	
	(11 160 191)	(9 792 265)	
Consumer debtors pledged as security			
No consumer debtors were pledged as security for collateral liabilities.			

Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Rands	2016	2015 Restated*
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10. Consumer debtors (continued)

Other consumer debtors include Office and billboard rentals and sundry debtors. Debtors with negative balances amounted to R504 463 (2015: R457 920). An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end excluding amounts due from government departments. In determining the recoverability of a receivable, the municipality considers any change in the credit quality of the receivable from the date on which the credit was initially granted up to the reporting date.

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	37 079	3 828
Bank balances	6 508 709	15 673 901
	6 545 788	15 677 729

The entity had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
FNB BANK - Cheque account - 531-5327-8884	1 813 448	344 245	141 176	1 813 448	344 245	141 176
FNB BANK - Licensing Cheque account - 622-0376-1962	890 361	240 273	6 302	890 361	240 273	6 302
FNB - MIG Cheque Acc- 622-0222-6751	1 768 908	13 826 622	34 891	1 768 908	13 826 622	34 891
FNB - Call Acc - 613-1500-0549	1 080	116 069	13 283	1 080	116 069	13 283
FNB - Cheque - 623-7063-9373	3 325	329 789	14 250	3 325	329 789	14 250
FNB - Cheque - 623-7306-3222	1 000	74 460	10 990	1 000	74 460	10 990
FNB - Cheque Acc - 623-7063-8573	220 700	36 674	67 717	220 700	36 674	67 717
FNB - 7 Day Notice - 744-2706-5468	1 809 887	705 769	667 551	1 809 887	705 769	667 551
Total	6 508 709	15 673 901	956 160	6 508 709	15 673 901	956 160

Nongoma Local Municipality

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Notes to the Annual Financial Statements

Rands	2016	2015 Restated*
12. Finance lease obligation		
Minimum lease payments due		
- within one year	116 938	179 619
- in second to fifth year inclusive	49 138	9 619
	166 076	189 238
less: future finance charges	(13 745)	(6 347)
Present value of minimum lease payments	152 331	182 891
Present value of minimum lease payments due		
- within one year	105 052	173 374
- in second to fifth year inclusive	47 279	9 517
	152 331	182 891
Non-current liabilities	47 279	9 517
Current liabilities	105 052	173 374
	152 331	182 891

It is municipality's policy to lease certain cellphones from Vodacom for a period of 2 years. Monthly lease installments of an average of R300 each are payable in arrears. Internal rate of interest is charged at an average rate of 13.30% per annum.

Ownership will pass to the municipality at the end of the lease periods. The lease agreement does not provide for contingent lease payments and there are no restrictions imposed by lease arrangements.

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
MSIG	-	716
Municipal Infrastructure Grant (MIG)	-	13 814 098
Tourism Grant from Zululand District Municipality	40 000	50 000
EPWP	174 400	-
Neighbourhood Developement Partnership Grant	-	1 561 000
Cathseta	6 300	6 300
Sports Grant	-	126 787
	220 700	15 558 901

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited and unfulfilled conditions and other contingencies attaching to government assistance that has been recognised. The comparative figure has been restated from R300 013 to R15 558 901 due to R5 253,26 relating to salaries that was erroneously recorded as a grant, R13 703 141 relating to NDPG that was overspent in 2013/2014 and R1 561 000 that was withheld by National Treasury on NDPG.

Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Rands	2016	2015 Restated*
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14. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Additions	Utilised during the year	Change in discount factor	Total
Rehabilitation of landfill site	5 845 215	440 913	-	(17 523)	6 268 605
Performance bonuses	438 282	538 639	(438 282)	-	538 639
	6 283 497	979 552	(438 282)	(17 523)	6 807 244

Reconciliation of provisions - 2015

	Opening Balance	Additions	Utilised during the year	Total
Rehabilitation of landfill site	3 203 639	2 641 576	-	5 845 215
Performance bonuses	239 491	438 282	(239 491)	438 282
	3 443 130	3 079 858	(239 491)	6 283 497
Non-current liabilities				6 268 605
Current liabilities				538 639
				6 807 244
				6 283 497

Environmental rehabilitation provision

The provision for rehabilitation for landfill site represents management's best estimate of the municipality's liability relating to closure and rehabilitation of the site. These costs are expended in the year of closure and typically relate final shaping and compacting works, capping, top soiling and vegetation as well as constructing stormwater control systems. It also includes costs associated with erection of a proper fence (if not yet in place), decommissioning of any infrastructure and erection of end-use related infrastructure.

Rehabilitation costs were calculated based on the following assumptions:

- Site will be classified as communal
- Landfill footprint estimated on site. Coordinates of the footprint then determined through GPS. Area for rehabilitation measured from GPS
- No leachate control is required
- It is assumed that topsoil/ coversoil is available near the site
- As the site is currently not fenced, allowance has been made to fence the site.
- The site currently includes:
 - Preliminary and General items at 20% of construction item costs
 - Contingencies at 10% of total construction costs
 - Design Fees at 14% of total costs (construction and contingencies);
- All costs exclude VAT
- The Basic Assessment Report (BAR) process and waste license application requires the same effort for the licensed site. It is further assumed that no specialist studies will be required

Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Rands	2016	2015 Restated*
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14. Provisions (continued)

- Post closure monitoring costs not included (assumed to be nominal as the site is communal)

The following factors may influence the actual costs of the environmental processes and construction works:

- Consolidation of various environmental authorisation processes may potentially result in a cost saving by up to 25%. A consolidated process however carries a risk that a complication with a single project component or aspect could result in a delay of the entire application and therefore the approval and implementation of all components.
- Infrastructure and facilities associated with each of the proposed upgrade works may trigger the need for additional authorisation processes or result in the need for an expanded statutory process (e.g. EIA instead of basic Assessment), resulting in a cost variation.
- Depending on the final location and the extent of the proposed landfill works, and the local environmental opportunities and constraints, specialist studies may be required.
- Legislative and environmental authorisation requirements (and their administration) are subject to change.
- Project costs were estimated using the current market related prices and are subject to escalation. The project commencement date and overall project duration will therefore have an effect on the final project costs.
- Public participation processes are inherently unpredictable and can be influenced by the level of interest shown by Interested and Affected Parties (I&APs) and the nature of the issues raised. Any Environment Assessment Practitioner undertaking the work will be legally and procedurally required to respond to such interest with due diligence.

The discount rate used for the present value calculation was based on GOVI long bond and amounts to 9.35%.

Performance bonuses

The municipality has a policy to provide for performance bonuses of S57 employees which is in terms of Section 8 of the Local Government : Municipal Performance Management Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers, 2006. Provision has been made for this cost at 10% of the annual total cost to company based on historical trends. The municipality evaluates the overall performance of S57 employees using the applicable assessment-rating calculator. Usually, the performance bonuses are paid in January after the annual report has been tabled and adopted by the Council and employee's annual performance has been evaluated in accordance with the provision of regulation 23. The 2015 amount has been restated from R438 282.

15. Instalment sale agreement

Non-current portion	-	26 763
Current portion	53 918	333 135

The Instalment sale agreement is with ABSA Bank for the purchase of a motor vehicle at an interest rate of 8.75%. The loan is repayable over 60 months. The liability is secured against a vehicle with a net book value of R393 372.

16. Retentions

Retentions	245 509	-
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Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Rands	2016	2015 Restated*
17. Payables from exchange transactions		
Trade payables	4 585 440	5 243 123
Payments received in advanced - Hall hire	10 747	-
Third party deductions	291 734	4 439
Accrued Leave Pay	5 866 778	4 425 508
Deposits Received - Hall hire	34 032	41 993
Unallocated receipts	374 634	342 356
Sundry Creditors	3 956 207	6 955 184
	15 119 572	17 012 603

The comparative figure of the previous year has been restated due to the correction of rentals for 2014/2015 that were not included under accruals (included under Trade and payables). The 2015 amount of R5 243 123 for Trade and payables has been restated from R4 990 696. During the year unallocated receipts amounting to R374 634 (2014/2015: R342 356) have been reclassified from receivables to payables. The comparative figure has also been restated due to R5 253,26 relating to salaries that was erroneously recorded as a grant.

The trade and other payables include payables as per age analysis in which there are no creditors which have been outstanding for more than 30 days and accruals raised at year end. The credit period of the trade and other payables is consistent with the terms used in the public sector which is 30 days and therefore discounting was not necessary.

18. Financial instruments

Categories of financial instruments

2016

Financial assets

	At amortised cost	Total
Consumer debtors	21 858 158	21 858 158
Cash and cash equivalents	6 508 709	6 508 709
Sundry debtors	530 130	530 130
28 896 997		28 896 997

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	15 112 626	15 112 626
Instalment sale agreement	53 918	53 918
Finance lease obligation	152 331	152 331
15 318 875		15 318 875

2015

Financial assets

	At amortised cost	Total
Consumer debtors	15 298 845	15 298 845
Cash and cash equivalents	15 673 901	15 673 901
Sundry debtors	395 544	395 544
31 368 290		31 368 290

Financial liabilities

Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Rands	2016	2015 Restated*
. Financial instruments (continued)		
	At amortised cost	Total
Trade and other payables from exchange transactions	17 012 603	17 012 603
Instalment sale agreement	359 898	359 898
Finance lease obligation	182 891	182 891
	17 555 392	17 555 392

19. Revenue

Service charges	1 685 461	1 654 134
Rental of facilities and equipment	59 923	120 688
Interest received (trading)	2 120 594	1 896 522
Licences and permits	667 973	625 053
Sundry Income	730 204	453 182
Interest received - investment	1 813 802	1 138 343
Property rates	18 230 205	14 729 173
Government grants & subsidies	176 812 201	144 129 911
Fines, Penalties and Forfeits	281 223	587 829
	202 401 586	165 334 835

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	1 685 461	1 654 134
Rental of facilities and equipment	59 923	120 688
Interest earned on outstanding debtors	2 120 594	1 896 522
Licences and permits	667 973	625 053
Sundry Income	730 204	453 182
Interest received - investment	1 813 802	1 138 343
	7 077 957	5 887 922

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	18 230 205	14 729 173
Transfer and other revenue		
Government grants & subsidies	176 812 201	144 129 911
Fines, Penalties and Forfeits	281 223	587 829
	195 323 629	159 446 913

Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Rands	2016	2015 Restated*
20. Property rates		
Rates received		
Residential	18 619 831	16 760 085
Less: Income forgone	(389 626)	(2 030 912)
	18 230 205	14 729 173
Valuations		
Residential	112 459 000	103 209 000
Business	278 527 000	278 577 000
Special	703 628 000	620 042 000
Public Service Infrastructure	12 000	12 000
Vacant Land	5 539 000	8 528 000
Rural Communal Land	400 904 000	400 904 000
	1 501 069 000	1 411 272 000
Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2013. The supplementary valuation roll was done in 2015.		
Rates are levied on a monthly basis.		
21. Service charges		
Refuse removal	1 685 461	1 654 134
22. Government grants and subsidies - Revenue from Non exchange Transactions		
Operating grants		
Equitable share	124 217 000	96 234 000
Financial Management Grant	1 800 000	1 800 000
Municipal Systems Improvement Grant (MSIG)	930 716	934 000
Provincial Grant: Libraries	553 000	535 000
Tourism Grant	60 000	50 000
Expanded Public Works Programme	1 449 600	1 041 000
Cathseta	-	9 000
Cyber Cadet Library Grant	170 000	126 000
Pound Grant	-	380 000
Sport	126 787	129 910
	129 307 103	101 238 910
Capital grants		
Municipal Infrastructure Grant	35 505 098	26 956 879
Integrated National Electrification	12 000 000	6 000 000
Neighbourhood Development Partnership Grant - NDPG	-	9 934 122
	47 505 098	42 891 001
	176 812 201	144 129 911

Comparative figure was restated as a result of a reclassification of amounts received from LGSETA (R81 260) from government grants and subsidies to other income.

Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Rands	2016	2015 Restated*
22. Government grants and subsidies - Revenue from Non exchange Transactions (continued)		
Equitable Share		
Amount allocated	119 436 000	88 019 000
Other transfers allocated	220 000	-
Unapproved rollovers transferred from conditional grants	4 561 000	8 215 000
Amount recognised	(124 217 000)	(96 234 000)
-		
The amount withheld is in respect of grant balances (MIG: R3 0000 000 and NDPG: R1 561 000) that were not approved for roll forward.		
Financial Management Grant (FMG)		
Current-year receipts	1 800 000	1 800 000
Conditions met - transferred to revenue	(1 800 000)	(1 800 000)
-		
Provincial Grant: Provincialisation of Libraries		
Current-year receipts	553 000	535 000
Conditions met - transferred to revenue	(553 000)	(535 000)
-		
Municipal Infrastructure Grant (MIG)		
Balance unspent at beginning of year	13 814 098	8 842 520
Unspent balance withheld	(3 000 000)	(7 883 543)
Current-year receipts	24 691 000	39 812 000
Conditions met - transferred to revenue	(35 505 098)	(26 956 879)
-		
Neighbourhood Development Partnership Grant (NDPG)		
Balance unspent at beginning of year	1 561 000	(13 703 142)
Current-year receipts	-	9 876 000
Conditions met - transferred to revenue	-	(9 934 122)
Unspent balance withheld	(1 561 000)	1 561 000
Overspent amount recognised to accumulated surplus	-	13 761 264
-		
MSIG		
Balance unspent at beginning of year	716	24 716
Unspent balance withheld	-	(24 000)
Current-year receipts	930 000	934 000
Conditions met - transferred to revenue	(930 716)	(934 000)
-		
716		

NDPG was restated as result of withheld amount of R1 561 000 and overspent amount of R13 703 141 recognised in the accumulated surplus.

MSIG

Balance unspent at beginning of year	716	24 716
Unspent balance withheld	-	(24 000)
Current-year receipts	930 000	934 000
Conditions met - transferred to revenue	(930 716)	(934 000)
-		
716		

Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Rands	2016	2015 Restated*
22. Government grants and subsidies - Revenue from Non exchange Transactions (continued)		
Sport grant		
Balance unspent at beginning of year	126 787	256 697
Conditions met - transferred to revenue	(126 787)	(129 910)
	-	126 787
Conditions still to be met - remain liabilities (see note 13).		
Tourism Grant		
Balance unspent at beginning of year	50 000	100 000
Current-year receipts	50 000	-
Conditions met - transferred to revenue	(60 000)	(50 000)
	40 000	50 000
Conditions still to be met - remain liabilities (see note 13).		
Integrated National Electrification		
Balance unspent at beginning of year	-	258 646
Unspent balance withheld	-	(258 646)
Current-year receipts	12 000 000	6 000 000
Conditions met - transferred to revenue	(12 000 000)	(6 000 000)
	-	-
Conditions still to be met - remain liabilities (see note 13).		
Pound Grant		
Balance unspent at beginning of year	-	380 000
Conditions met - transferred to revenue	-	(380 000)
	-	-
Conditions still to be met - remain liabilities (see note 13).		
Expanded Public Works Programme (EPWP)		
Balance unspent at beginning of year	-	48 811
Unspent balance withheld	-	(48 811)
Current-year receipts	1 624 000	1 041 000
Conditions met - transferred to revenue	(1 449 600)	(1 041 000)
	174 400	-
Conditions still to be met - remain liabilities (see note 13).		
Cathseta grant		
Balance unspent at beginning of year	6 300	4 500
Current-year receipts	-	10 800
Conditions met - transferred to revenue	-	(9 000)
	6 300	6 300
Conditions still to be met - remain liabilities (see note 13).		

Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Rands	2016	2015 Restated*
22. Government grants and subsidies - Revenue from Non exchange Transactions (continued)		
Cyber Cadet Library grant		
Current-year receipts	170 000	126 000
Conditions met - transferred to revenue	(170 000)	(126 000)
	-	-

Conditions still to be met - remain liabilities (see note 13).

23. Other revenue

Other Income	730 204	453 182
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Other income relates to Sundry income received by the Departments of the Municipality. Sundry Revenue received is in respect of the following:

- Sale of Documents
- Building Plans
- Photocopying
- School patrol for which the Department of Transport pays the Municipality

Comparative figure was restated as a result of a reclassification of amounts received from LGSETA (R81 260) from government grants and subsidies to other income.

Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Rands	2016	2015 Restated*
24. General expenses		
Advertising	465 815	628 346
Auditors remuneration	1 627 812	1 429 755
Bank charges	71 819	81 320
Cleaning	92 876	54 924
Consulting and professional fees	4 835 530	7 790 112
Donations	10 000	10 000
Entertainment	203 061	381 211
Fines and penalties	10 654	145 544
Insurance	504 243	575 115
Community development and training	7 689 220	6 509 499
Conference and Seminars	288 849	238 259
Promotions and sponsorships	613 334	-
Policies and planning	2 533 888	1 298 837
Fuel and oil	775 317	739 384
Printing and Stationery	1 305 687	461 269
Protective clothing	259 007	553 732
Software expenses	694 731	689 200
Subscriptions	958 606	230 156
Telephone and fax	325 159	472 416
Transport and freight	165 410	245 020
Training - staff	1 124 662	705 805
Travel - local	6 146 008	3 980 797
Water and electricity	532 366	426 490
Consumables	298 996	211 987
Indigent support	567 411	725 733
Disaster management	766 310	199 975
Sport and recreation	1 181 457	1 004 115
Landfill site	315 429	2 567 602
	34 363 657	32 356 603

The previous comparative figure was restated due to operating leases shown separately.

Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Rands	2016	2015 Restated*
25. Employee related costs		
Basic	41 825 667	32 925 130
Bonus	3 144 108	2 701 328
Medical aid - company contributions	2 059 429	1 679 243
UIF	357 276	294 892
SDL	505 211	404 218
Leave pay provision charge	1 879 581	(1 043 396)
Pension	9 710 460	7 313 880
Travel, motor car, accommodation, subsistence and other allowances	3 664 565	3 297 598
Overtime payments	2 566 394	1 452 163
Long-service awards	1 323 795	383 191
Other Benefits	631 574	355 859
	67 668 060	49 764 106

Remuneration of Municipal Manager

Annual Remuneration	708 918	662 287
Allowances	470 670	440 953
Performance Bonuses	121 356	109 317
Contributions to UIF, Medical and Pension Funds	1 784	1 785
Contributions to SDL and Bargaining Council	12 507	10 709
Backpay	33 110	34 455
	1 348 345	1 259 506

The comparative figure of the previous year has been restated due to provision of performance bonus for S57 employees that was not raised as a provision in prior year.

Remuneration of the Chief Finance Officer

Annual Remuneration	638 026	595 854
Allowances	414 770	388 211
Performance Bonuses	110 349	83 345
Contributions to UIF, Medical and Pension Funds	21 055	11 407
Backpay	30 087	27 428
Contributions to SDL	11 139	9 551
	1 225 426	1 115 796

The comparative figure of the previous year has been restated due to provision of performance bonus for S57 employees that was not raised as a provision in prior year.

Remuneration of Executive Director: Corporate Services

Annual Remuneration	319 585	746 684
Allowances	48 449	112 653
Backpay	26 870	23 946
Contributions to UIF, Medical and Pension Funds	15 746	35 736
Contributions to SDL and Bargaining Council	5 753	9 137
Leave payout	84 770	-
Performance bonus	82 560	-
	583 733	928 156

The comparative figure of the previous year has been restated due to provision of performance bonus for S57 employees that was not raised as a provision in prior year.

Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Rands	2016	2015 Restated*
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25. Employee related costs (continued)

Corporate Services Director (Mr MJ Dladla) was dismissed in November 2015. His position has yet not been filled.

Mrs HN Mthembu has been acting on the position since 1 February 2016 to 30 June 2016. Total acting allowance paid up to 30 June 2016 is R140 162.

Remuneration of Director: Technical Services

Annual Remuneration	744 488	696 332
Allowances	329 537	296 398
Performance Bonuses	109 238	98 386
Contributions to UIF, Medical and Pension Funds	1 784	1 785
Contributions to SDL and Bargaining Council	11 573	9 851
Backpay	29 744	34 208
	1 226 364	1 136 960

The comparative figure of the previous year has been restated due to provision of performance bonus for S57 employees that was not raised as a provision in prior year.

Remuneration of Executive Director: Community Services

Annual Remuneration	664 981	621 968
Allowances	260 049	238 699
Performance Bonuses	99 566	78 524
Contributions to UIF, Medical and Pension Funds	44 034	41 745
Contributions to SDL and Bargaining Council	10 401	13 400
Backpay	27 174	28 074
	1 106 205	1 022 410

The comparative figure of the previous year has been restated due to provision of performance bonus for S57 employees that was not raised as a provision in prior year.

Remuneration of Executive Director: Planning Services

Annual Remuneration	820 034	761 874
Allowances	125 643	117 588
Performance Bonuses	98 129	68 709
Contributions to UIF, Medical and Pension Funds	9 357	14 302
Contributions to SDL and Bargaining Council	10 428	9 103
Backpay	26 777	23 860
	1 090 368	995 436

The comparative figure of the previous year has been restated due to provision of performance bonus for S57 employees that was not raised as a provision in prior year.

Remuneration of Executive Director: Protection Services

The position of the Executive Director: Protection Services was vacant for the current year.

Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Rands	2016	2015 Restated*
26. Remuneration of councillors		
Mayor's Allowance	740 236	646 615
Deputy Mayor's Allowance	598 190	522 769
Executive Committee Allowances	1 927 604	1 658 949
Speaker's Allowance	597 641	522 521
Councillors	6 961 188	6 994 359
Pension	987 522	930 177
Backpay Councillors	682 498	-
Skill Levy	-	1 514
	12 494 879	11 276 904
In-kind benefits		
Speaker is on full-time basis. The Honourable Mayor and Deputy Mayor are full-time with effect from 1 July 2012. The Mayor, Deputy Mayor and Speaker are each provided with an office and secretarial support at the cost of the Council.		
The Honourable Mayor has three full-time bodyguards and three full-time drivers. Speaker has two full-time bodyguards.		
27. Debt impairment		
Contributions to debt impairment provision - Traffic fines	402 438	-
Contributions to debt impairment provision - Consumer debtors	1 367 926	1 611 740
Bad debts written off	37 042	-
	1 807 406	1 611 740
28. Fair value adjustments		
Property, plant & equipment	-	86 959
29. Depreciation and amortisation		
Property, plant and equipment	9 665 632	9 634 264
Intangible assets	206 739	88 309
	9 872 371	9 722 573
30. Impairment of assets		
Impairments		
Property, plant and equipment	523 481	2 023 155
31. Finance costs		
Interest on instalment sale agreement	20 777	44 874
Capitalised	-	73 974
Unwinding of Interest on landfill site	107 961	22 433
	128 738	141 281
32. Auditors' remuneration		
Fees	1 627 812	1 429 755

Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Rands	2016	2015 Restated*
33. Cash generated from operations		
Surplus	58 636 171	45 210 635
Adjustments for:		
Depreciation and amortisation	9 872 371	9 722 573
Gain on sale of assets and liabilities	211 427	-
Fair value adjustments	-	(86 959)
Impairment deficit	523 481	2 023 155
Movement in provision for doubtful debtors	(965 487)	2 008 332
Movements in operating lease assets and accruals	128 678	(31 736)
Movements in retirement benefit assets and liabilities	1 241 025	(581 000)
Movements in provisions and employee benefit obligation	523 747	3 079 868
Other items	(93 251)	(15 549 682)
Disposal of property, plant and equipment	-	7 788
Changes in working capital:		
Consumer debtors	(7 927 239)	(4 676 686)
Other receivables from non-exchange transactions	(537 023)	(1 269 230)
Sundry debtors	219 120	(527 640)
Prepayments	245 509	-
Payables from exchange transactions	(1 893 037)	(3 978 637)
VAT	(3 632 985)	(12 236)
Unspent conditional grants and receipts	(15 338 201)	19 282 778
	41 214 306	54 621 325

34. Investigations

The following are the matters for which investigations were conducted:

- MEC (COGTA) appointed PWC to conduct a forensic investigation into allegations of improper use of funds regarding the (a) Museum, (b) Absa link road, (c) Lost/stolen cheques, and (d) the Bypass road. In addition, due to the Presidential hotline, other matters had to be included in the investigation, for example, overtime as well as appointment of directors without following regulations. The forensic investigation was completed and the report was presented to MEC. The municipality is waiting for COGTA to present the report to council.
- The mayor indicated that the investigation into project costs paid to a supplier were not correlating to what was completed and the report was tabled to Council. Council recommended that the supplier be ordered to complete the project at no cost to the municipality or repay the money. The mayor further stated that acknowledgement of debt document was signed by the supplier. Secondly, disciplinary hearings against officials of municipality allegedly involved in this regard are in the process of being convened. Service providers have signed acknowledgement of debt. The municipality is dealing with the suppliers to complete the work. Municipal Manager (MM) went on site and found that the work is going on slowly. Municipality might need to take the service providers to court to finalise the projects. The disciplinary hearing has been finalised. A report with proposed sanctions has been tabled in Council and Council has accepted the recommendations.

Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Rands	2016	2015 Restated*
35. Commitments		
Authorised capital expenditure		
Approved and contracted for		
• Property, plant and equipment	49 868 625	61 588 871
Total capital commitments		
Approved and contracted for	49 868 625	61 588 871
Authorised operational expenditure		
Approved and contracted for		
• Operational commitments	14 609 231	-
Total operational commitments		
Approved and contracted for	14 609 231	-
Total commitments		
Total commitments		
Authorised capital expenditure	49 868 625	61 588 871
Authorised operational expenditure	14 609 231	-
	64 477 856	61 588 871

This committed expenditure relates to MIG projects and other operational programmes and will be financed by available MIG, retained surpluses, existing cash resources and funds internally generated.

Operating leases - as lessee (expense)

Minimum lease payments due	2016	2015
- within one year	3 678 425	1 703 054
- in second to fifth year inclusive	7 236 135	2 666 259
	10 914 560	4 369 313

Operating lease payments represent rentals for printers leased from Nashua Zululand and properties from Priscila Bond. Only one agreement provides for contingent rent payments. Leases are negotiated for an average of three years and rentals vary in terms of a contract of the lease. Certain leases are subject to escalation at a rate of 15% over the lease period. No restrictions are imposed by lease arrangements.

Nongoma Local Municipality

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Notes to the Annual Financial Statements

Rands	2016	2015 Restated*
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36. Contingencies

Contingent liabilities

The following are cases that were undertaken by other parties against the Municipality for which expected completion/resolution is expected during the 2017 financial year:

- Labour Matter - Legal action was taken against the Municipality by an employee relating to termination of their contract. This action commenced on 30/04/2013 and is expected to be resolved during the 2016 financial year. The amount of the potential claim is R 958 428.
- Eviction Matter - Unlawful Occupation of Land. Legal counsel's estimate of financial exposure is approximately R350 000.
- Eviction Matter - Unlawful Occupation of Land. Legal counsel's estimate of financial exposure is approximately R500 000.
- Recovery of funds - Legal action was taken against the Municipality by Econocom Consulting Civil and Structural Engineers & Others. Legal counsel's estimate of financial exposure is approximately R400 000.
- Labour Matter - Legal action was taken against the Municipality by an employee relating to termination of their contract. The amount of the potential claim is unknown at this state.
- Judgement Matter - Judgement application opposed on the matter between Telkom and the municipality. Legal counsel's estimate of financial exposure is approximately R150 000.

37. Related parties

Relationships	
Accounting Officer	Refer to accounting officer's report note
Management	Refer to note 25
Councillors	Refer to note 26

Related party transactions

Related party transactions

Employee related costs: Management	6 490 936	6 458 264
Remuneration of Councillors	12 494 878	11 276 904

The comparative figure of the previous year has been restated due to inadvertent inclusion of the total employee related costs for all municipality's employees which includes employees who do not meet the definition of a related party as defined in the Accounting Standards. The 2015 amount of R6 458 264 has been restated from R49 565 315.

38. Change in estimate

Property, plant and equipment

A change in the estimated useful life of certain property, plant and equipment, intangible assets that were reaching their estimated useful lives has resulted in the following change in depreciation. The effect on the current and future periods will be a decrease in the depreciation charge of R 436 815.44 in the current period and an equal decrease in the depreciation charge of R 436 815.44 over the coming periods. -

39. Prior period errors

1. Performance bonuses

During the current year the municipality realised that the performance bonuses for S57 employees; (R2014/2015: R438 282.03) and (2013/2014: R239 491), were not raised as a provision in the prior years. The prior periods were adjusted retrospectively.

2. Rental of facilities and equipment

During the current year the municipality realised that the rental (R221 426) for 2014/2015 was recognised as 2015/2016 expenditure. The prior period was adjusted retrospectively.

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Rands	2016	2015 Restated*
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39. Prior period errors (continued)

3. Land sales

The municipality incorrectly accounted for land sales in prior years and this resulted in sundry debtors (land sales) be in a negative balance of R16 667.

4. Unspent grants

The municipality overspent NDPG in 2013/2014 by R13 703 140 and the municipality was promised by Treasury that this amount will be refunded. Treasury did not refund the municipality and the amount was written off to the accumulated surplus. The NDPG was also restated by R1 561 000 that was withheld by Treasury.

5. Landfill site provision

The municipality inadvertently recorded the landfill site provision value by R10 in 2014/2015.

Statement of financial position

Land sales	-	(16 667)
Unspent grants	-	15 264 141
As previously reported	-	62 708
Performance bonuses	-	239 491
Opening Accumulated Surplus or Deficit	-	(15 549 674)

Statement of Financial Performance

Employee related costs	-	(438 282)
Rental of facilities and equipment	-	(221 426)
Landfill site expenditure	-	10

40. Comparative figures

Comparative figures have been restated due to prior period adjustments. The effect of these changes are detailed in note 35.

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Notes to the Annual Financial Statements

Rands	2016	2015 Restated*
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41. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for member and benefits for other stakeholder returns and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality's consists of debt, which includes the borrowings in the form of Installment sale obligation as disclosed in note 15 and 12, cash and cash equivalents disclosed in note 11, and equity as disclosed in the statement of financial position.

Consistent with others in the industry, the municipality's monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

The gearing ratio at 2016 and 2015 respectively were as follows:

Total borrowings

Finance lease obligation	12	152 331	182 891
Instalment sale agreement	15	53 918	359 898
Trade and other payables		15 112 626	17 012 603
		15 318 875	17 555 392
Less: Cash and cash equivalents	11	6 545 788	15 677 729
Net debt		8 773 087	1 877 663
Total equity		304 821 055	262 246 747
Total capital		313 594 142	264 124 410

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (fair value interest rate risk), liquidity risk and credit risk.

Liquidity risk

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The municipality's approach to managing liquidity risk is to ensure that sufficient liquidity is available to meets its liabilities when due, without incurring unacceptable losses or risking damage to the municipality's reputation.

Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. During 2016 and 2015, the municipality's borrowings were denominated in the Rand.

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Rands	2016	2015 Restated*
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41. Risk management (continued)

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis. Sales to retail customers are settled in cash or using major credit cards.

Financial assets exposed to credit risk and financial liabilities exposed to liquidity risk at year end were as follows:

Financial instrument	2016	2015
Bank	6 508 709	15 673 901
Consumer debtors	21 858 158	15 298 845
Sundry debtors	530 130	395 544
Finance lease obligation	152 331	182 891
Instalment sale agreement	53 918	359 898
Trade and other payables	15 222 041	12 284 793

42. Going concern

We draw attention to the fact that at 30 June 2016, the municipality had accumulated surplus of R 304 821 055 and that the municipality's total assets exceed its liabilities by R 304 821 055. The municipality's current ratio is favourable as current assets exceed the current liabilities.

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the municipality will still continue to obtain grants from National Treasury and the capital expenditure committed which is the major expenditure item is funded by government grants. The municipality also receives Equitable Share to fund its operations. The municipality has not entered into loan arrangements.

43. Events after the reporting date

There were no material events after the reporting date.

44. Unauthorised expenditure

Opening balance	19 471 839	13 773 757
Unauthorised expenditure - incurred during the period	12 301 276	5 698 082
	31 773 115	19 471 839

Items overspent include salaries and wages, remuneration of Councillors, finance costs and operating leases.

45. Fruitless and wasteful expenditure

Opening balance	165 314	2 466
Fruitless and wasteful expenditure - incurred during the period	822 992	162 848
	988 306	165 314

The fruitless and wasteful expenditure includes:

- Interest paid on late payments: R5 733.56
- MSCOA related training: R812 309.28

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Notes to the Annual Financial Statements

Rands	2016	2015 Restated*
45. Fruitless and wasteful expenditure (continued)		
- Charge for late accommodation booking cancellation:	R4 950	
46. Irregular expenditure		
Opening balance	34 150 416	27 846 684
Add: Irregular Expenditure - current year	3 358 964	6 303 732
	37 509 380	34 150 416

Irregular expenditure in the current year is made up of the following:

- Payments made to suppliers whose members were in the service of the state: R455 620
- Excessive amount paid in connection with VAT recoveries professional services: R198 632.28
- Payments to suppliers without tax clearance certificate: R495 700
- Payments to suppliers who did not submit declarations: R464 885
- Non-compliant deviations: R1 146 292.78
- Variations not approved: R597 834.12

47. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	(527 640)	-
Current year subscription / fee	527 640	500 000
Amount paid - current year	-	(500 000)
Amount paid in advance	-	(527 640)
	-	(527 640)

The municipality is the member of South African Local Government Association (SALGA) in respect of which annual membership fees are paid.

Skills Development Levy

Current year subscription / fee	498 265	341 544
Amount paid - current year	(457 946)	(341 544)
	40 319	-

Audit fees

Opening balance	14 266	18 674
Current year subscription / fee	1 667 547	1 271 260
Amount paid - current year	(1 643 983)	(1 256 994)
Amount paid - previous years	(14 266)	(18 674)
	23 564	14 266

PAYE and UIF

Current year subscription / fee	10 123 071	7 793 109
Amount paid - current year	(9 021 983)	(7 793 109)
	1 101 088	-

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Notes to the Annual Financial Statements

Rands	2016	2015 Restated*
47. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Pension and Medical Aid Deductions		
Current year subscription / fee	18 064 683	14 510 339
Amount paid - current year	(18 064 683)	(14 510 339)
Amount paid in advance	(19 956)	-
	(19 956)	-

VAT

VAT receivable	4 050 430	417 445
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The municipality is on the payment basis of VAT. VAT receivables are shown in note 9. The comparative figure of the previous year has been restated due to correction of rentals for 2014/2015 period which were not raised as accruals. The 2015 amount of R417 445 has been restated from R386 446.

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

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred amounting to R3 500 800, as listed below, have been approved and/or noted by Council.

Incident

Upgrading of Driving Licence Testing Centre offices	495 700	-
Accommodation for SALGA games	288 564	-
Deviations less than R200 000	2 716 536	-
	3 500 800	-

48. Correction of errors

The following entries have been made against accumulated surplus in the current year:

1. Correction of R16 667 on land sales was adjusted against accumulated surplus.
2. Newly identified assets with an amount of R48 320 and duplicated assets reversed R61 437.
3. Other sundry corrections amounting to R124 904.

Land sales	(16 667)	-
Assets	(13 117)	-
Other	(124 904)	-
	(154 688)	-

