



Ngwathe Local Municipality
Annual Financial Statements
for the year ended 30 June 2018

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

General Information

Legal form of entity

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

Nature of business and principal activities

The main business operations of the municipality is to engage in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of the following services to the community: Waste Management Services (the collection, disposal and purifying of waste, refuse and sewerage); Electricity Services (electricity is bought in bulk from Eskom and distributed to the consumers by the municipality); Water Services (supplying water to the public); and Rates and general services (all types of services rendered by the municipality, excluding the supply housing to the community, however including the rental of units owned by the municipality to public and staff).

Mayoral committee

Executive Mayor

Councillors

Mochela J
Mopedi N (Speaker)
Mbele M (Exco member)
Mmusi M (Exco member)
Mofokeng M (Exco member)
Mofokeng M (Exco member)
Ndayi R (Exco member)
Serathi K (Exco member)
Sotshiva L (Exco member)
De Beer V
De Jager S
Ferendale R
Fieland H
Gobidolo M
Kgantse R
La Cock P
Mabena J
Magashule M
Matroos AH
Mehlo R
Miyen M
Mofokeng M
Molaphene P
Motebele R (resigned 16 Feb 2018)
Mvulane S
Nteo S
Radebe S
Rapuleng ND
Schoonwinkel A
Sehume A
Serfontein C
Taje M
Toyi M
Thene B
Van Der Merwe P

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

General Information

	Vermaak S Mmusi M Tete C (appointed April 2018)
Grading of local authority	Category C
Capacity of local authority	Medium capacity
Municipal demarcation code	FS 203
Accounting Officer	Kannemeyer BW
Chief Finance Officer (CFO)	Lebusa IS
Registered office	12 Liebenbergs Trek Parys 9585
Business address	12 Liebenbergs Trek Parys 9585
Postal address	PO Box 359 Parys 9585
Bankers	ABSA
Attorneys	Utilise attorneys in Municipal areas (Detailed list available at Municipal offices)
Contact details	Chief Financial Officer - 056 816 2700 Municipal Manager - 056 816 2700

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Index

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

	Page
Accounting Officer's Responsibilities and Approval	4
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Cash Flow Statement	8
Statement of Comparison of Budget and Actual Amounts	9
Accounting Policies	10 - 34
Notes to the Annual Financial Statements	34 - 84

DBSA	Development Bank of South Africa
AGSA	Auditor-General of South Africa
GRAP	Generally Recognised Accounting Practice
INEG	Department of Mineral and Energy Grant
IPSAS	International Public Sector Accounting Standards
LGSETA	Local Government Sector Education and Training Authority
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
SARS	South African Revenue Services
UIF	Unemployment Insurance Fund

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

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 2019 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 municipality is wholly dependent on the government for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the government has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

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

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 5 to 84, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2018 and were signed on its behalf by:

Accounting Officer
Mr. Kannemeyer BW

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Position as at 30 June 2018

	Note(s)	2018	2017
Assets			
Current Assets			
Inventories	3	751,999	645,673
Receivables from exchange transactions	4&6	143,471,181	68,897,896
Receivables from non-exchange transactions	5&6	26,376,444	19,591,247
Sundry receivables	7	10,679,514	10,675,864
Cash and cash equivalents	8	6,273,825	3,780,791
VAT receivable	9	155,252,956	111,727,626
		342,805,919	215,319,097
Non-Current Assets			
Investment property	10	26,184,200	26,184,200
Property, plant and equipment	11	869,917,305	866,985,088
Intangible assets	12	2,728,206	3,528,298
Other financial assets	13	991,799	911,546
		899,821,510	897,609,132
Total Assets		1,242,627,429	1,112,928,229
Liabilities			
Current Liabilities			
Other financial liabilities	14	-	734,332
Finance lease obligation	15	42,418	313,060
Payables from exchange transactions	16	1,192,398,553	1,003,268,224
Consumer deposits	17	5,145,758	5,249,696
Employee benefit obligation	20	3,240,000	3,554,000
Unspent conditional grants and receipts	18	23,877,531	112,814
Provisions	19	295,595,200	104,803,165
		1,520,299,460	1,118,035,291
Non-Current Liabilities			
Finance lease obligation	15	-	42,418
Provisions	19	-	104,844,712
Employee benefit obligation	20	81,454,000	51,811,000
		81,454,000	156,698,130
Total Liabilities		1,601,753,460	1,274,733,421
Net Assets		(359,126,031)	(161,805,192)
Accumulated surplus		(359,126,034)	(161,805,192)

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Performance

	Note(s)	2018	2017
Revenue			
Revenue from exchange transactions			
Service charges	22	263,978,219	261,919,438
Rental of facilities and equipment	23	756,938	1,451,563
Other income	25	1,674,992	1,921,542
Interest received	26	45,360,931	45,119,389
Total revenue from exchange transactions		311,771,080	310,411,932
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	27	76,079,609	76,797,103
Transfer revenue			
Government grants and subsidies	29	254,849,213	236,594,300
Fines, penalties and forfeits	28	2,096,951	1,338,911
Donation		1,000,000	-
Total revenue from non-exchange transactions		334,025,773	314,730,314
Total revenue		645,796,853	625,142,246
Expenditure			
Employee related costs	30	(231,429,369)	(186,763,716)
Remuneration of councillors	31	(14,428,003)	(11,443,395)
Bad debts written off		-	(173,235,102)
Depreciation and amortisation	32	(82,844,001)	(66,234,822)
Finance costs	33	(35,674,690)	(106,579,869)
Debt Impairment	34	(74,379,059)	55,953,470
Bulk purchases	35	(214,812,687)	(212,136,461)
Contracted services	36	(51,946,969)	(27,562,743)
General expenses	37	(133,721,294)	(97,932,564)
Total expenditure		(839,236,072)	(825,935,202)
Operating deficit		(193,439,219)	(200,792,956)
Loss on disposal of assets and liabilities		-	(1,123,354)
Fair value adjustments	38	309,851	6,132,189
Actuarial gains/(losses)	20	-	4,048,845
Inventories surplus / (losses)		-	83,055
		309,851	9,140,735
Deficit for the year		(193,129,368)	(191,652,221)

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Changes in Net Assets

	Accumulated surplus	Total net assets
Balance at 01 July 2016	21,629,139	21,629,139
Changes in net assets		
Revaluation and correcting of Asset Register	(16,806,258)	(16,806,258)
Correcting of Creditors age analysis	25,024,148	25,024,148
Net income (losses) recognised directly in net assets	8,217,890	8,217,890
Deficit for the year	(191,652,221)	(191,652,221)
Total recognised income and expenses for the year	(183,434,331)	(183,434,331)
Total changes	(183,434,331)	(183,434,331)
Balance at 01 July 2017	(161,805,189)	(161,805,189)
Changes in net assets		
Deficit for the year	(193,129,368)	(193,129,368)
Correction of bank journals of prior year	(4,191,477)	(4,191,477)
Total changes	(197,320,845)	(197,320,845)
Balance at 30 June 2018	(359,126,034)	(359,126,034)
Note(s)		

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Cash Flow Statement

	Note(s)	2018	2017
Cash flows from operating activities			
Receipts			
Cash receipt from customers		269,242,839	228,082,687
Grants		254,849,213	236,198,999
Interest income		1,629,275	1,522,469
Other receipts		5,528,881	(62,115)
		<u>531,250,208</u>	<u>465,742,040</u>
Payments			
Employee costs		(276,364,506)	(185,673,585)
Suppliers		(130,920,415)	(202,440,099)
Finance costs		(35,674,690)	(2,695,104)
		<u>(442,959,611)</u>	<u>(390,808,788)</u>
Net cash flows from operating activities	40	<u>88,290,597</u>	<u>74,933,252</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(84,666,274)	(69,265,448)
Purchase of other intangible assets	12	-	(3,935,160)
Additions to investments		(80,253)	(4,254)
Purchase of sundry receivables		(3,650)	-
		<u>(84,750,177)</u>	<u>(73,204,862)</u>
Cash flows from financing activities			
Repayment of other financial liabilities		(734,332)	(2,912,610)
Employee benefit obligation payment		-	(3,198,155)
Finance lease payments		(313,060)	(280,593)
		<u>(1,047,392)</u>	<u>(6,391,358)</u>
Net increase/(decrease) in cash and cash equivalents		2,493,028	(4,662,968)
Cash and cash equivalents at the beginning of the year		3,780,791	8,443,765
Cash and cash equivalents at the end of the year	8	<u>6,273,819</u>	<u>3,780,797</u>

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

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
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	397,083,524	(41,770,199)	355,313,325	263,978,219	(91,335,106)	54.1
Rental of facilities and equipment	(18,369,038)	(1,240,153)	(19,609,191)	756,938	20,366,129	54.2
Other income	6,711,713	(2,420,014)	4,291,699	1,674,992	(2,616,707)	54.3
Interest received	61,335,622	(11,325,056)	50,010,566	45,360,931	(4,649,635)	54.4
Total revenue from exchange transactions	446,761,821	(56,755,422)	390,006,399	311,771,080	(78,235,319)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	84,461,230	(1,443,561)	83,017,669	76,079,609	(6,938,060)	54.5
Fines, penalties and forfeits						
Government grants and subsidies	219,829,000	-	219,829,000	254,849,213	35,020,213	
Fines, penalties and forfeits	1,800,000	(800,000)	1,000,000	2,096,951	1,096,951	54.6
Other transfer revenue 1	-	-	-	1,000,000	1,000,000	
Total revenue from non-exchange transactions	306,090,230	(2,243,561)	303,846,669	334,025,773	30,179,104	
Total revenue	752,852,051	(58,998,983)	693,853,068	645,796,853	(48,056,215)	
Expenditure						
Employee related costs	(125,822,119)	150,000	(125,672,119)	(231,429,369)	(105,757,250)	54.7
Remuneration of councillors	-	-	-	(14,428,003)	(14,428,003)	
Depreciation and amortisation	(31,687)	-	(31,687)	(82,844,001)	(82,812,314)	54.8
Finance costs	(104,150,194)	104,150,194	-	(35,674,690)	(35,674,690)	54.10
Lease rentals on operating lease	(3,352,400)	150,000	(3,202,400)	-	3,202,400	
Bad debts written off	(44,795,025)	(24,691,000)	(69,486,025)	(74,379,059)	(4,893,034)	55.9
Bulk purchases	(156,900,000)	(6,000,000)	(162,900,000)	(214,812,687)	(51,912,687)	54.12
Contracted services	(67,134,373)	1,000,000	(66,134,373)	(51,946,969)	14,187,404	54.13
General expenses	(282,355,355)	11,446,462	(270,908,893)	(133,721,294)	137,187,599	54.14
Total expenditure	(784,541,153)	86,205,656	(698,335,497)	(839,236,072)	(140,900,575)	
Operating deficit	(31,689,102)	27,206,673	(4,482,429)	(193,439,219)	(188,956,790)	
Fair value adjustments	-	-	-	309,851	309,851	54.18
Deficit for the year	(31,689,102)	27,206,673	(4,482,429)	(193,129,368)	(188,646,939)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(31,689,102)	27,206,673	(4,482,429)	(193,129,368)	(188,646,939)	
Reconciliation						

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

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) (MFMA).

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

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

A summary of the significant accounting policies are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Going concern assumption

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

1.2 Significant judgements and sources of estimation uncertainty

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

Receivables

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

The impairment for receivables is calculated on a portfolio basis. For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Allowance for slow moving, damaged and obsolete inventory

An assessment is made of net realisable value at the end of each reporting period. A write down of inventory to the lower of cost or net realisable value is subsequently provided. Management has made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the surplus or deficit.

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

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

Value in use of cash generating assets

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

Value in use of non-cash generating assets

The municipality reviews and tests the carrying value of non-cash generating assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

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 19 - Provisions.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the property, plant and equipment and other assets. This estimate is based on industry norms and on the pattern in which an asset's future economic benefit or service potential is expected to be consumed by the municipality. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives and decrease depreciation charge where useful lives are more than previously estimated useful lives.

Post retirement benefits and other long-term benefits

The present value of the post retirement and long-term benefit obligations depend 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 and long-term benefit 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 post retirement and long-term benefit obligations. In determining the appropriate discount rate, the municipality considers the market yields at the reporting date on government 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 or other long-term liability. Where there is no market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for post retirement and other long-term obligations are based on current market conditions. Additional information is disclosed in Note 20.

Effective interest rate

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

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Allowance for impairment of financial assets

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

1.3 Investment property

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

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

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

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

Investment property is recognised at cost. Transaction costs are included in the initial measurement. Subsequent to initial measurement investment property is measured at cost.

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

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

Fair value

During the current year the Municipality has elected to change its accounting policy in accordance with Directive 11 (March 2014). This Directive allows an entity, that has initially adopted the fair value model for investment property or the revaluation model for property, plant and equipment, intangible assets or heritage assets, to change its accounting policy on a once-off basis to the cost model when the entity elects to change its accounting policy following the initial adoption of these Standards of GRAP. The once-off change will be allowed when the entity made an inappropriate accounting policy choice on the initial adoption of the Standards of GRAP.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property are the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

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

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 55).

1.4 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.

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.4 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 are initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

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

The revaluation surplus in net assets related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

Property, plant and equipment are depreciated over their expected useful lives to their estimated residual value. The depreciation charge for each period is recognised in surplus or deficit.

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

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.4 Property, plant and equipment (continued)

Item	Depreciation method	Average useful life
Airport	Straight line	15 to 20 years
Buildings	Straight line	50 years
Furniture and fixtures	Straight line	5 to 10 years
Infrastructure	Straight line	3 to 100 years
IT equipment	Straight line	3 to 6 years
Land		Fair value model
Motor vehicles	Straight line	3 to 20 years
Office equipment	Straight line	3 to 6 years
Plant and machinery	Straight line	5 to 15 years

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

Assets of the municipality 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.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 55).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 11).

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.5 Site restoration and dismantling cost

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

The related asset is measured using the cost model:

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

1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality 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.

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.6 Intangible assets (continued)

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.

Intangible assets are initially measured at cost.

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.

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.

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets to their residual values. The amortisation charge for each period is recognised in surplus or deficit.

The useful lives of items of intangible assets have been assessed as follows:

Item	Depreciation method	Average useful life
Computer software, other	Straight line	5 years
Servitudes		Indefinite

Intangible assets are derecognised:

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

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

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.7 Impairment of cash-generating assets

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

Identification

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

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

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

Value in use

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

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

Cash-generating units

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

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

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

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

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

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.7 Impairment of cash-generating assets (continued)

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

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

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

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

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

Reversal of impairment loss

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

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

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

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

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

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

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

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

Redesignation

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

1.8 Impairment of non-cash-generating assets

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

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

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

Identification

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

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

Reversal of an impairment loss

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

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

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

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

Redesignation

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

1.9 Financial instruments

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

Classification

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

Class	Category
Shares	Financial asset measured at fair value
Loans to economic entities	Financial asset measured at amortised cost
Loans to shareholders	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at amortised cost
Sundry receivables	Financial asset measured at amortised cost
Vat receivable	Financial asset measured at amortised cost

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

Class	Category
Other financial liabilities	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Employee benefit obligation	Financial liability measured at amortised cost

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.9 Financial instruments (continued)

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.

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.

Fair value measurement considerations

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

Short-term receivables and payables are not discounted when the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.9 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

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 :
 - derecognises the asset; and
 - recognises separately any rights and obligations created or retained in the transfer.

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

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

Financial liabilities

The 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.

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

1.10 Statutory receivables

Identification

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

Recognition

The municipality recognises statutory receivables as follows:

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

Initial measurement

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.10 Statutory receivables (continued)

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

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

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

Accrued interest

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

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

Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, these charges are accounted for in terms of the municipality's accounting policy on Revenue from exchange transactions or Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Impairment losses

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

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

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

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

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

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

Derecognition

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

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.10 Statutory receivables (continued)

- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
 - derecognises the receivable; and
 - recognises separately any rights and obligations created or retained in the transfer.

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

1.11 Inventories

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

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

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

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

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

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

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

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

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

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered.

The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.12 Share capital / contributed capital

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

1.13 Value-added Tax (VAT)

The municipality is registered with the South African Revenue Services (SARS) for VAT on the payment basis, in accordance with Section 15(2) of the VAT Act No.89 of 1991.

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.14 Employee benefits

Short-term employee benefits

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

Short-term employee benefits include:

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

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

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

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

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

Multi-employer plans

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

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

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

Sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the municipality accounts for the plan as if it was a defined contribution plan.

Post-employment benefits: Defined contribution plans

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

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

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

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.14 Employee benefits (continued)

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

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

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

- current service cost;
- interest cost;
- actuarial gains and losses;
- past service cost;

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

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

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

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

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

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

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.14 Employee benefits (continued)

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

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

Other long-term employee benefits

The municipality has an obligation to provide other long-term service allowance benefits to all of its employees for every 5 years of completed services from 5 to 45 years.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method to determine the present value of the obligations.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality recognises the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- actuarial gains and losses, which shall all be recognised immediately;

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.15 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating loss.

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 42.

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:

The related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.7 and 1.8.

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.

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

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.16 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited / debited against accumulated surplus / deficit. Prior year adjustments, relating to income and expenditure, are credited / debited against accumulated surplus when retrospective adjustments are made.

1.17 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve.

On disposal, the net revaluation surplus is transferred to the accumulated surplus / deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.18 Revenue from exchange transactions

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.

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

Interest and dividends

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

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

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

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.19 Revenue from non-exchange transactions

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

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.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with 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.

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.

Property rates

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

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

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

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

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

Transfers

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.

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

Debt forgiveness and assumption of liabilities

The municipality recognises 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. The municipality makes use of estimates to determine the amount of revenue that it is entitled to collect. Where settlement discounts or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by receivables.

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

Gifts and donations, including goods in-kind

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

Services in-kind

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

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

Concessionary loans received

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

The portion of the loan that is repayable, along with any interest payments, are exchange transactions and are accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the statement of financial performance recognises revenue as and when it satisfies the conditions of the loan agreement.

1.20 Investment income

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

1.21 Borrowing costs

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

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

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.22 Leases

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

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

Finance leases - lessee

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

The discount rate used in calculating the present value of the minimum lease payments is the municipality'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.

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

Operating leases - lessee

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

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

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

1.23 Grant in aid

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

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

These transfers are recognised in the statement of financial performance as expenses in the period that the events given raise to the transfer occurred.

1.24 Comparative figures

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

1.25 Commitments

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

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.25 Commitments (continued)

Disclosures are required in respect of unrecognised contractual commitments.

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

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

1.26 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.

1.27 Fruitless and wasteful expenditure

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

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

1.28 Irregular expenditure

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

1.29 Budget information

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 01/07/2017 to 30/06/2018.

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.

1.30 Related parties

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

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.

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.30 Related parties (continued)

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, management in their dealings with the municipality.

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

1.31 Events after reporting date

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

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

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

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

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

2018

2017

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

2018

2017

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
---------------------------	--	------------------

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18 Segment reporting	01 April 2009	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2009	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2009	Unlikely there will be a material impact
• GRAP 26 (as amended 2016): Impairment of cash-generating assets	01 April 2018	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	01 April 2009	Unlikely there will be a material impact
• GRAP 21 (as amended 2016): Impairment of non-cash-generating assets	01 April 2018	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2018	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	01 April 2009	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2009	Unlikely there will be a material impact
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2009	Unlikely there will be a material impact
• GRAP 17 (as amended 2016): Property, Plant and Equipment	01 April 2018	Unlikely there will be a material impact
• GRAP 16 (as amended 2016): Investment Property	01 April 2018	Unlikely there will be a material impact

2.3 Standards and interpretations 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 2018 or later periods but are not relevant to its current operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 34: Separate Financial Statements	Effective date has not yet been determined by the Minister of Finance	Unlikely there will be a material impact
GRAP 35: Consolidated Financial Statements	Effective date has not yet been determined by the Minister of Finance	Unlikely there will be a material impact

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 36: Investments in Associates and Joint Ventures	Effective date has not yet been determined by the Minister of Finance	Unlikely there will be a material impact
GRAP 37: Joint Arrangements	Effective date has not yet been determined by the Minister of Finance	Unlikely there will be a material impact
GRAP 38: Disclosure of Interests in Other Entities	Effective date has not yet been determined by the Minister of Finance	Unlikely there will be a material impact
GRAP 27 (as amended 2016): Agriculture	1 April 2018	Unlikely there will be a material impact
GRAP 103 (as amended 2016): Heritage Assets	1 April 2018	Unlikely there will be a material impact
GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	1 April 2018	Unlikely there will be a material impact

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018	2017
3. Inventories		
Water	160,277	155,864
Stores and material	591,722	489,809
	751,999	645,673
Stock surpluses / losses during the year	-	83,055
Inventories recognised as an expense during the year	-	772,985
Inventory pledged as security		
No Inventory was pledged as security for overdraft facilities.		
4. Receivables from exchange transactions		
Consumer debtors - Electricity	52,514,723	27,559,730
Consumer debtors - Water	41,502,150	6,839,473
Consumer debtors - Sewerage	26,998,581	17,997,387
Consumer debtors - Refuse	17,553,413	8,212,571
Consumer debtors - Sundry receivables	4,902,314	8,288,735
	143,471,181	68,897,896
Trade and other receivables pledged as security		
None of trade and other receivables were pledged as security for overdraft facilities.		
Credit quality of trade and other receivables		
The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:		
None of the financial assets that are fully performing have been renegotiated in the last year.		
Fair value of trade and other receivables		
The carrying value of the consumer receivables recorded at amortised cost approximate their fair value		
Trade and other receivables impaired		
As of 30 June 2018, trade and other receivables of R 394,963,855 (2017: R 419,606,948) were impaired and provided for.		
The amount of the provision was R 57,646,244 as of 30 June 2018 (2017: R 67,151,148).		
The ageing of these loans is as follows:		
0 - 30 days	58,420,400	52,291,988
31 - 60 days	19,930,709	16,477,293
61 - 90 days	17,238,107	13,527,049
91 - 120 days	16,981,903	13,181,366
121 - 360 days	150,444,796	103,772,026
Over 360 days	404,510,039	289,255,123

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018	2017
4. Receivables from exchange transactions (continued)		
Reconciliation of provision for impairment of trade and other receivables		
Opening balance	(419,606,948)	(486,758,096)
Provision for impairment	(57,646,244)	67,151,148
Amounts written off as uncollectible	82,289,337	-
	(394,963,855)	(419,606,948)
5. Receivables from non-exchange transactions		
Property rates	26,376,444	19,591,247
Receivables from non-exchange transactions pledged as security		
None of the receivables from non-exchange transactions were pledged as security for overdraft facilities.		
Credit quality of receivables from non-exchange transactions		
The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:		
None of the financial assets that are fully performing have been renegotiated in the last year.		
Fair value of receivables from non-exchange transactions		
The carrying value of the consumer receivables recorded at amortised cost approximate their fair values.		
Receivables from non-exchange transactions impaired		
As of 30 June 2018, other receivables from non-exchange transactions of R 99,042,332 (2017: R 85,219,889) were impaired and provided for.		
The amount of the provision was R 16,732,814 as of 30 June 2018 (2017: R 5,533,509).		
Reconciliation of provision for impairment of receivables from non-exchange transactions		
Opening balance	(85,219,889)	(79,686,380)
Provision for impairment	(16,732,814)	(5,533,509)
Amounts written off as uncollectible	2,910,371	-
	(99,042,332)	(85,219,889)
6. Receivable from exchange and non exchange transactions disclosure		
Gross balances		
Consumer debtors - Rates	125,411,008	104,811,136
Consumer debtors - Electricity	115,353,506	98,805,580
Consumer debtors - Water	180,336,778	162,511,035
Consumer debtors - Sewerage	135,142,113	128,245,337
Consumer debtors - Refuse	92,870,513	83,923,962
Consumer debtors - Sundry receivables	14,714,296	15,018,930
	663,828,214	593,315,980

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018	2017
6. Receivable from exchange and non exchange transactions disclosure (continued)		
Less: Allowance for impairment		
Consumer debtors - Rates	(99,034,564)	(85,219,889)
Consumer debtors - Electricity	(62,838,783)	(71,245,850)
Consumer debtors - Water	(138,834,628)	(155,671,562)
Consumer debtors - Sewerage	(108,143,532)	(110,247,950)
Consumer debtors - Refuse	(75,317,100)	(75,711,391)
Consumer debtors - Sundry receivables	(9,811,982)	(6,730,195)
	<u>(493,980,589)</u>	<u>(504,826,837)</u>
Net balance		
Consumer debtors - Rates	26,376,444	19,591,247
Consumer debtors - Electricity	52,514,723	27,559,730
Consumer debtors - Water	41,502,150	6,839,473
Consumer debtors - Sewerage	26,998,581	17,997,387
Consumer debtors - Refuse	17,553,413	8,212,571
Consumer debtors - Sundry receivables	4,902,314	8,288,735
	<u>169,847,625</u>	<u>88,489,143</u>
Rates		
Current (0 -30 days)	10,172,588	13,524,326
31 - 60 days	3,880,779	3,270,534
61 - 90 days	3,494,737	2,819,897
91 - 120 days	3,420,524	2,593,483
121 - 365 days	30,993,870	18,056,803
> 365 days	73,456,278	64,546,093
Less: Impairment	(99,042,332)	(85,219,889)
	<u>26,376,444</u>	<u>19,591,247</u>
Electricity		
Current (0 -30 days)	18,754,150	14,640,653
31 - 60 days	5,120,450	3,651,408
61 - 90 days	3,045,977	2,835,995
91 - 120 days	3,237,641	3,079,570
121 - 365 days	26,683,870	26,780,466
> 365 days	58,511,391	47,817,488
Less: Impairment	(62,838,756)	(71,245,850)
	<u>52,514,723</u>	<u>27,559,730</u>
Water		
Current (0 -30 days)	13,863,338	11,496,058
31 - 60 days	5,280,179	4,875,076
61 - 90 days	5,227,270	5,131,008
91 - 120 days	4,963,779	4,777,569
121 - 365 days	39,301,435	37,765,597
> 365 days	111,718,633	98,465,727
Less: Impairment	(138,852,484)	(155,671,562)
	<u>41,502,150</u>	<u>6,839,473</u>

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018	2017
6. Receivable from exchange and non exchange transactions disclosure (continued)		
Sewerage		
Current (0 -30 days)	6,778,856	15,143,518
31 - 60 days	2,990,570	2,868,577
61 - 90 days	2,865,493	2,939,949
91 - 120 days	2,822,589	2,816,172
121 - 365 days	31,175,324	20,724,466
> 365 days	88,509,282	83,752,655
Less: Impairment	(108,143,533)	(110,247,950)
	26,998,581	17,997,387
Refuse		
Current (0 -30 days)	5,721,964	6,073,571
31 - 60 days	2,579,665	2,492,827
61 - 90 days	2,516,810	2,547,237
91 - 120 days	2,460,040	2,444,511
121 - 365 days	20,740,442	17,887,712
> 365 days	58,851,592	52,478,104
Less: Impairment	(75,317,100)	(75,711,391)
	17,553,413	8,212,571
Sundry receivables		
Current (0 -30 days)	3,129,503	4,938,188
31 - 60 days	79,067	2,589,404
61 - 90 days	87,820	72,860
91 - 120 days	77,330	63,544
121 - 365 days	1,549,855	613,785
> 365 days	9,790,721	6,741,149
Less: Impairment	(9,811,982)	(6,730,195)
	4,902,314	8,288,735
7. Sundry receivables		
Sundry receivables	10,679,514	10,675,864
8. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	94,241	-
Bank balances	3,964,163	1,565,370
Short-term deposits	2,169,970	2,169,970
Other cash and cash equivalents	45,451	45,451
	6,273,825	3,780,791

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

2018 2017

8. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
ABSA BANK - Cheque account - 405-2707-733	4,181,999	1,544,549	1,338,408	4,178,790	1,544,549	1,333,268
ABSA BANK - Call account - 925-3832-988	604,254	34,291	164,764	604,254	34,291	164,764
ABSA BANK - Call account - 925 - 3833 - 502	785,560	2,077,854	6,847,695	785,560	2,077,854	6,847,695
ABSA BANK - Call account - 9250 - 3833 - 764	486,186	12,800	12,171	486,186	12,800	12,171
ABSA BANK - Call account - 925 - 3835 - 643	1,037	8,182	1,648	1,037	8,182	1,648
ABSA BANK - Cheque account - 113 - 000 - 0041	(904)	45,451	(12,040)	(904)	45,451	44,723
ABSA BANK - Call account - 928 - 6271 - 086	108,325	22,162	25,571	108,325	22,162	25,571
ABSA BANK - Call account - 928 - 6271 - 167	15,432	14,681	13,925	15,432	14,681	13,925
Total	6,181,889	3,759,970	8,392,142	6,178,680	3,759,970	8,443,765

9. VAT receivable

VAT	155,252,956	111,727,626
-----	-------------	-------------

The municipality is registered for VAT on the payment basis.

10. Investment property

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	26,184,200	-	26,184,200	26,184,200	-	26,184,200

Reconciliation of investment property - 2018

Investment property	Opening balance	Total
	26,184,200	26,184,200

Reconciliation of investment property - 2017

Investment property	Opening balance	Other changes, movements	Fair value adjustments	Total
	110,445,240	(90,335,527)	6,074,487	26,184,200

Pledged as security

No investment property is pledged as security:

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

2018

2017

10. Investment property (continued)

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

Details of valuation

The effective date of the revaluations was 01 July 2017. Revaluations were performed by an independent valuer, Mr Pradeep Ramlall, of AB Projects. AB Projects are not connected to the municipality and have the relevant experience in location and category of the investment property being valued.

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

During the current year the Municipality has elected to change its accounting policy in accordance with Directive 11 (March 2014). This Directive allows an entity, that has initially adopted the fair value model for investment property or the revaluation model for property, plant and equipment, intangible assets or heritage assets, to change its accounting policy on a once-off basis to the cost model when the entity elects to change its accounting policy following the initial adoption of these Standards of GRAP. The once-off change will be allowed when the entity made an inappropriate accounting policy choice on the initial adoption of the Standards of GRAP.

Amounts recognised in surplus or deficit

Rental revenue from Investment property	676,556	1,252,115
---	---------	-----------

11. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	274,416,071	-	274,416,071	274,416,071	-	274,416,071
Buildings	61,917,284	(21,055,097)	40,862,187	61,917,284	(14,588,791)	47,328,493
Plant and machinery	3,745,766	(2,137,362)	1,608,404	3,579,794	(1,878,591)	1,701,203
Furniture and fixtures	9,907,006	(7,872,773)	2,034,233	9,517,718	(7,029,010)	2,488,708
Motor vehicles	19,685,634	(13,337,127)	6,348,507	17,302,648	(11,467,811)	5,834,837
Office equipment	1,058,743	(806,539)	252,204	1,010,746	(692,363)	318,383
IT equipment	4,922,619	(3,421,360)	1,501,259	4,324,551	(2,899,091)	1,425,460
Infrastructure	1,206,499,371	(663,604,931)	542,894,440	1,122,429,917	(588,957,984)	533,471,933
Total	1,582,152,494	(712,235,189)	869,917,305	1,494,498,729	(627,513,641)	866,985,088

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

2018

2017

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Revaluations	Depreciation	Impairment loss	Total
Land	274,416,071	-	-	-	-	274,416,071
Buildings	47,328,493	-	-	(4,404,022)	(2,062,284)	40,862,187
Plant and machinery	1,701,203	88,566	77,406	(258,771)	-	1,608,404
Buildings	2,488,708	200,921	188,367	(843,763)	-	2,034,233
Motor vehicles	5,834,837	16,045	2,366,941	(1,869,316)	-	6,348,507
Office equipment	318,383	7,895	40,102	(114,176)	-	252,204
IT equipment	1,425,460	283,393	314,675	(522,269)	-	1,501,259
Infrastructure	533,471,933	84,069,454	-	(74,031,591)	(615,356)	542,894,440
	866,985,088	84,666,274	2,987,491	(82,043,908)	(2,677,640)	869,917,305

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Other	Other changes, movements	Depreciation	Total
Land	16,684,309	-	-	-	257,731,762	-	274,416,071
Buildings	38,567,142	-	-	-	11,618,176	(2,856,825)	47,328,493
Plant and machinery	782,300	763,661	(57,045)	-	442,865	(230,578)	1,701,203
Buildings	1,375,682	150,421	(54,485)	-	1,408,982	(391,892)	2,488,708
Motor vehicles	4,682,060	-	-	-	2,305,518	(1,152,741)	5,834,837
Office equipment	258,116	59,445	(7,773)	-	66,835	(58,240)	318,383
IT equipment	589,645	958,620	(16,857)	-	151,856	(257,804)	1,425,460
Infrastructure	677,838,802	115,908,334	(987,194)	467,393	(198,927,762)	(60,827,640)	533,471,933
	740,778,056	117,840,481	(1,123,354)	467,393	74,798,232	(65,775,720)	866,985,088

Pledged as security

No Property, Plant and Equipment were pledged as security.

Assets subject to finance lease (net carrying amount)

Motor vehicles	190,387	380,834
----------------	---------	---------

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Total
Opening balance	233,528,648	233,528,648
Additions/capital expenditure	81,302,935	81,302,935
Transferred to completed items	(173,390,840)	(173,390,840)
	141,440,743	141,440,743

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Total
Opening balance	233,528,648	233,528,648

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018	2017
11. Property, plant and equipment (continued)		
Expenditure incurred to repair and maintain property, plant and equipment		
Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Buildings	618,439	920,068
Infrastructure	30,745,468	21,406,825
Vehicles	2,379,714	2,929,153
	33,743,621	25,256,046

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

12. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	4,000,460	(1,272,254)	2,728,206	4,000,460	(472,162)	3,528,298

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software, other	3,528,298	(800,092)	2,728,206

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Revaluations	Amortisation	Total
Computer software, other	-	3,935,160	52,240	(459,102)	3,528,298
Servitudes	1,321,200	-	(1,321,200)	-	-
	1,321,200	3,935,160	(1,268,960)	(459,102)	3,528,298

Pledged as security

No intangible assets were pledged as security.

Details of valuation

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

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

These assumptions are based on current market conditions.

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

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018	2017
13. Other financial assets		
Designated at fair value		
Sanlam shares 6682 shares @ R70.07 trading value (2017: R 64.80)	473,897	432,993
At amortised cost		
Heilbron Sanlam policy Policy number - 040571573X1	445,219	411,010
FNB deposit - 71037431386 Investment serves as guarantee for Saambou Bank and bears interest at 15%	19,074	17,743
FNB Parys - 710381146801 Investment serves as guarantee for BJ Monyamara and bears interest at 5%	53,609	49,800
	517,902	478,553
Total other financial assets	991,799	911,546
Non-current assets		
Designated at fair value	473,897	432,993
At amortised cost	517,902	478,553
	991,799	911,546
Financial assets at fair value		
Fair value hierarchy of financial assets at fair value		
For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements. The fair value hierarchy have the following levels:		
Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.		
Level 2 applies inputs other than quoted prices that are observable for the assets either directly (i.e. as prices) or indirectly (i.e. derived from prices).		
Level 3 applies inputs which are not based on observable market data.		
Level 1		
Class 2 - Listed shares	473,897	432,993
Renegotiated terms		
None of the financial assets that are fully performing have been renegotiated in the last year.		
14. Other financial liabilities		
At amortised cost		
DBSA Loan Loan bears interest at 10% annually and penalty interest of 12% annually. Repayments are done on a quarterly basis with last payment due on 30 June 2018.	-	734,332
Current liabilities		
At amortised cost	-	734,332

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018	2017
15. Finance lease obligation		
Minimum lease payments due		
- within one year	42,939	336,722
- in second to fifth year inclusive	-	42,938
	<u>42,939</u>	<u>379,660</u>
less: future finance charges	(521)	(24,182)
Present value of minimum lease payments	<u>42,418</u>	<u>355,478</u>
Present value of minimum lease payments due		
- within one year	42,417	313,061
- in second to fifth year inclusive	-	42,417
	<u>42,417</u>	<u>355,478</u>
Non-current liabilities	-	42,418
Current liabilities	42,418	313,060
	<u>42,418</u>	<u>355,478</u>

It is municipality policy to lease certain motor vehicles under finance leases.

The average lease term was 5 years (2017: 5 years) and the average effective borrowing rate is 10% (2017: 10%).

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

16. Payables from exchange transactions

Trade payables	1,111,319,224	941,429,027
Payments received in advanced	35,942,580	22,915,306
Accrued leave pay	15,243,162	14,399,376
Accrued bonus	4,239,373	3,905,025
Deposits received	195,632	195,632
Other payables	3,388,906	310,478
Salary suspense account	4,596,857	9,478,988
Unallocated receipts	5,182	5,182
Retention	17,467,637	10,629,210
	<u>1,192,398,553</u>	<u>1,003,268,224</u>

17. Consumer deposits

Rates, Electricity and water	<u>5,145,758</u>	<u>5,249,696</u>
------------------------------	------------------	------------------

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant (MIG)	289	288
Local Government Finance Management Grant (FMG)	11	11
Expanded Public Works Programme (EPWP)	37,779	36,628
Provincial Treasury subsidy (electricity)	75,887	75,887
WSIG Grant	14,309,741	-
Regional Infrastructure Grant (RBIG)	3,360,124	-
Waste Water Infrastructure - Subsidy	6,093,700	-
	<u>23,877,531</u>	<u>112,814</u>

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018	2017
<hr/>		
18. Unspent conditional grants and receipts (continued)		
Movement during the year		
Balance at the beginning of the year	112,815	508,115
Additions during the year	278,613,929	236,198,999
Income recognition during the year	(254,849,213)	(236,594,300)
	<u>23,877,531</u>	<u>112,814</u>

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

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018	2017	
19. Provisions			
Reconciliation of provisions - 2018			
	Opening Balance	Additions	Total
Environmental rehabilitation	209,647,877	85,947,323	295,595,200
Reconciliation of provisions - 2017			
	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	213,573,994	(3,926,117)	209,647,877
Non-current liabilities		-	104,844,712
Current liabilities		295,595,200	104,803,165
	295,595,200		209,647,877

Environmental rehabilitation provision

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

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

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

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

Disposal site 2017	Column heading	Opening Balance	Discounting	Movement due to changes in the net discount rate	Closing Balance
Edenville	-	14,802,917	-	837,875	15,640,792
Heilbron	-	57,283,388	-	3,487,140	60,770,528
Koppies	-	20,189,055	(320,512)	(354,449)	19,514,094
Parys	-	94,456,215	(2,348,642)	(6,776,954)	85,330,619
Vredevort	-	26,842,419	-	1,549,425	28,391,844
	-	213,573,994	(2,669,154)	(1,256,963)	209,647,877

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

		2018	2017			
19. Provisions (continued)						
Disposal site 2018	Column heading	Opening Balance	Discounting	Movement due to changes in the net discount rate	Column heading	Closing Balance
Edenville	-	15,640,792	-	2,265,408	-	17,906,200
Heilbron	-	60,770,528	-	3,879,472	-	64,650,000
Koppies	-	19,514,094	-	15,405,906	-	34,920,000
Parys	-	85,330,619	-	61,168,381	-	146,499,000
Vredevort	-	28,391,844	-	-	-	28,391,844
Subtotal	-	<u>209,647,877</u>	-	<u>82,719,167</u>	-	<u>292,367,044</u>
	-	<u>209,647,877</u>	-	<u>82,719,167</u>	-	<u>292,367,044</u>
20. Employee benefit obligations						
The amounts recognised in the statement of financial position are as follows:						
Carrying value						
Present value of the post employment medical aid benefit		(71,994,000)	(42,613,000)			
Present value of the long service award benefit		(12,700,000)	(12,752,000)			
		<u>(84,694,000)</u>	<u>(55,365,000)</u>			
Non-current liabilities		(81,454,000)	(51,811,000)			
Current liabilities		(3,240,000)	(3,554,000)			
		<u>(84,694,000)</u>	<u>(55,365,000)</u>			
Net expense recognised in the statement of financial performance						
Current service cost		3,125,000	3,125,000			
Interest cost		5,162,000	5,162,000			
Actuarial (gains) losses		(4,236,000)	(4,236,000)			
		<u>4,051,000</u>	<u>4,051,000</u>			
Key assumptions used						
Assumptions used at the reporting date:						
Gross discount rate	10.20 %	Nominal zero-coupon yield curve				
Healthcare cost inflation	8.50 %	Difference between nominal and real yield curve plus a 1% margin				
Maximum subsidy increase rate	8.50 %	50% of difference between nominal and real yield curve				
Net discount rate	1.57 %	Varies by term				

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

2018

2017

20. Employee benefit obligations (continued)

Post-employment medical aid benefit

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

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

(a) All existing continuation members (pensioners) and their dependants will continue to receive a 60% subsidy to the maximum (CAP) amount of R4,218.00 (per month per member) for the period 1 July 2018 to 30 June 2019. The maximum (CAP) amount was R3,942 for the period 1 July 2017 to 30 June 2018.

(b) Any future pensioners and their dependants will continue to receive a 60% subsidy subject to the maximum (CAP) amount of R 4,218 (per month per member) for the period from 1 July 2018 to 30 June 2019.

Changes in the present value of the post-employment medical aid benefit

Opening balance	42,613,000	40,236,000
Benefits paid	(1,391,000)	(2,018,155)
Net expenses recognised in the statement of financial performance	37,984,000	4,395,155
	79,206,000	42,613,000

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018	2017
<hr/>		
20. Employee benefit obligations (continued)		
Net expense of the post-employment medical aid benefit recognised in the statement of financial performance		
Current service cost	1,812,000	1,504,000
Interest cost	4,333,000	3,982,000
Actuarial (gain)/loss	31,839,000	(1,090,845)
	<u>37,984,000</u>	<u>4,395,155</u>

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

2018

2017

20. Employee benefit obligations (continued)

Discount rate:

GRAP 25 requires that the discount rate used in the valuation be determined by reference to market yields on government bonds as at the balance sheet date. In line with GRAP 25 and current market practice, government bond yields are therefore used when setting our best-estimate discount rate assumption

The currency and term of the government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.

The estimated discount rate was set equal to the yield on the BESA zero-coupon yield curve with a term of 17.6 years, the expected duration of the liability based on the current membership data, as at 30 June 2018.

Medical aid inflation:

In the past, healthcare cost inflation has typically exceeded the Consumer Price Index ("CPI") by a margin of 1% to 2%. The Bond Exchange of South Africa fits a real yield curve on index-linked bonds. This real yield curve is published together with the BEASSA yield curve on zero-coupon government bond yields, which is a nominal yield curve.

The inflation assumption is calculated as the difference between the nominal and real yield curves at the point corresponding to the duration of the liability, including a 0.5% inflation risk premium adjustment to make appropriate allowance for the current economic environment. A margin of 2% was added to this value to determine the healthcare cost inflation assumption. The CPI inflation assumption using this methodology is 6.50% as at 30 June 2018. Thus, the healthcare cost inflation has been set as 8.50% at the valuation date, after allowing for a margin of 2% over CPI inflation

Mortality rates:

- Pre-retirement mortality

The pre-retirement mortality table most commonly used in the retirement industry (for similar sub-populations in South Africa) is SA 85-90 (Light). We therefore propose that this table be adopted for the PRMA valuation. This is consistent with the pre-mortality rate used in the previous valuation

- Post-retirement mortality

PA (90) is commonly used in the retirement industry. We therefore propose that this table be adopted for the PRMA valuation. This is consistent with the post-mortality rate used in the previous valuation.

Spouse and dependants:

We have assumed that male members are 5 years older than their female spouses and vice versa. The same assumption was applied at the previous valuation date.

Where available, the actual age of spouse was used for continuation members.

No value has been placed on benefits payable to child dependants. The impact is likely to be immaterial and not allowing for child dependants is generally applied by other actuaries in the market place.

We have assumed that 90% of all active members (both male and female), will be married at retirement, whereas actual marital status will be used for continuation members.

	One percentage point increase	One percentage point decrease
Effects on the post-employment medical aid benefit obligations	(86,387,000)	(63,327,000)
Effects on interest cost	(9,010,000)	(6,565,000)
Effects on service cost	(3,560,000)	(5,381,000)

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

2018

2017

20. Employee benefit obligations (continued)

Long service award

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

The following table illustrates the qualifying criteria:

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

Changes in the present value of the long service award

Opening balance	12,752,000	14,089,000
Benefits paid	(1,998,000)	(1,180,000)
Net expenses recognised in the statement of financial performance	1,946,000	(157,000)
	12,700,000	12,752,000

Net expense of the long service award benefit recognised in the statement of financial performance

Current service cost	1,236,000	1,621,000
Interest cost	1,100,000	1,180,000
Actuarial (gain)/loss	(390,000)	(2,958,000)
	1,946,000	(157,000)

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018	2017
20. Employee benefit obligations (continued)		
Summary of economic assumptions (rates are per annum)		
Gross discount rate	8.80%	Nominal zero-coupon yield curve
Salary inflation	7.40%	Difference between nominal and real yield curve plus a 1% margin plus promotional salary increase rates
Net discount rate	1.30%	Varies by term and age

Discount rate:

GRAP 25 requires that the discount rate used in the valuation be determined by reference to market yields on government bonds as at the balance sheet date. In line with GRAP 25 and current market practice, government bond yields are therefore used when setting our best-estimate discount rate assumption.

The currency and term of the government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.

The estimated discount rate was set equal to the yield on the BESA zero-coupon yield curve with a term of 6.3 years, the expected duration of the liability based on the current membership data, as at 30 June 2018.

Normal salary inflation:

In the past, salary inflation has typically exceeded the Consumer Price Index ("CPI") by a margin of around 2%.

The Bond Exchange of South Africa fits a real yield curve on index-linked bonds. This real yield curve is published together with the BEASSA yield curve on zero-coupon government bond yields, which is a nominal yield curve.

The inflation assumption methodology has been updated to reflect the use of the real and nominal yield curves to determine the inflation assumption as this provides more accurate information on the outlook on inflation at specific durations. Therefore, the best estimate inflation assumption is calculated as the difference between the nominal and real yield curves at the point corresponding to the duration of the liability, including a 0.5% inflation risk premium adjustment to make appropriate allowance for the current economic environment. A margin of 2% was added to this value to determine the salary inflation assumption.

The CPI inflation assumption using this methodology is 5.40% as at 30 June 2018. Thus, the salary inflation has been set as 7.40% at the valuation date, after allowing for a margin of 2% over CPI inflation.

Please note that the valuation includes the salary increase granted to employees as at 1 July 2018 of 7.00% and assumes that the next salary increase date is at 1 July 2019.

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

2018

2017

20. Employee benefit obligations (continued)

Assumed retirement age:

The assumed retirement age of 63 years for current employees is based on the normal retirement age of the employer of 65 years for all employees, including allowance for early retirements. This assumption is in respect of males and females.

Normal retirement age:

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

Mortality rate:

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

Withdrawal decreasements:

In the absence of credible past withdrawal data of this particular scheme, the withdrawal assumptions have been set in line with those generally observed in the South African market.

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

Age band	Withdrawal rates males	Withdrawal rates females
20 years	16.00 %	24.00 %
25 years	12.00 %	18.00 %
30 years	10.00 %	15.00 %
35 years	8.00 %	10.00 %
40 years	6.00 %	6.00 %
45 years	4.00 %	4.00 %
50 years	2.00 %	2.00 %
55 years	1.00 %	1.00 %
60+	- %	- %

Sensitivity analysis - normal salary inflation

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

30 June 2018

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

DBO sensitivities

	One percentage point increase	One percentage point decrease
Salary inflation	(13,502,000)	(11,972,000)
Discount rate	(11,940,000)	(13,553,000)
	-	-

21. Financial instruments disclosure

Categories of financial instruments

2018

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

2018 2017

21. Financial instruments disclosure (continued)

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	473,897	517,902	950,895
Receivables from exchange transactions	-	143,471,181	182,875,552
Receivables from non-exchange transactions	-	26,376,444	45,489,957
Cash and cash equivalents	-	6,273,825	6,273,814
Other asset 2	-	10,679,514	5,871,256
	473,897	187,318,866	241,461,474

Financial liabilities

	At amortised cost	Total
Finance lease obligation	42,418	355,478
Payables from exchange transactions	1,111,319,224	1,008,211,337
Consumer deposits	5,145,758	5,145,758
Unspent conditional grants and receipts	23,877,531	23,877,531
	1,140,384,931	1,037,590,104

2017

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	432,993	478,553	911,546
Receivables from exchange transactions	-	68,897,896	68,897,896
Receivables from non-exchange transactions	-	19,591,247	19,591,247
Cash and cash equivalents	-	3,780,791	3,780,791
Other asset 2	-	10,675,864	10,675,864
	432,993	103,424,351	103,857,344

Financial liabilities

	At amortised cost	Total
Consumer deposits	5,249,696	5,249,695
Finance lease obligation	355,478	355,478
Other financial liabilities	734,332	734,332
Payables from exchange transactions	941,429,027	1,028,292,370
Unspent conditional grants and receipts	112,814	112,814
	947,881,347	1,034,744,689

22. Service charges

Sale of electricity	137,221,774	146,091,861
Sale of water	61,852,610	56,810,628
Sewerage and sanitation charges	34,423,775	31,245,683
Refuse removal	30,480,060	27,771,266
	263,978,219	261,919,438

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018	2017
23. Rental of facilities and equipment		
Premises		
Premises	676,556	1,252,115
Airport hire	-	16,614
Venue hire	17,606	9,051
Camps	4,710	4,710
Buildings and housing	58,066	167,945
	756,938	1,450,435
Facilities and equipment		
Rental of equipment	-	1,128
	756,938	1,451,563
24. Other income		
Other income	1,674,992	1,921,542
25. Other income		
Administration fees	4,709	1,139
Building plans and inspections	158,596	141,745
Clearance certificates	87,965	86,920
Reconnection / connection fees	316,065	251,807
Grave plots	631,751	630,455
Tender deposits	450,743	71,854
Sundry income	11,172	675,914
Sale of land	13,991	61,708
	1,674,992	1,921,542
26. Interest received		
Interest revenue		
Other financial asset	1,629,275	1,522,469
Interest charged on trade and other receivables	43,731,656	43,596,920
	45,360,931	45,119,389

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018	2017
27. Property rates		
Rates received		
Residential	9,509,921	119,301,653
Commercial	1,252,786	-
State	10,002,015	-
Small holdings and farms	704,807	-
Property rates 4	54,610,080	-
Less: Income forgone	-	(42,504,550)
	76,079,609	76,797,103
Valuations		
Agriculture	3,446,248,352	3,421,386,382
Business	502,821,936	499,478,335
Churches	1,620,000	85,100,440
Government	330,472,081	337,986,081
Industrial	38,392,500	38,686,500
Municipal	141,531,772	27,806,260
Other	80,000	99,000
Public Service Infrastructure	6,981,520	23,761,520
Residents	4,221,090,409	4,268,504,359
Schools	39,153,850	39,153,850
	8,728,392,420	8,741,962,727

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

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

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

28. Fines, penalties and forfeits

Fines - tampered meters	2,077,201	1,015,179
Fines - traffic	19,750	323,732
	2,096,951	1,338,911

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018	2017
29. Government grants and subsidies		
Operating grants		
Equitable share	160,570,000	157,638,874
Local Government Finance Management Grant (FMG)	2,145,000	1,809,989
Provincial Treasury subsidy (electricity)	-	4,924,113
Provincial Treasury subsidy (sewerage)	13,006,300	6,100,000
Cooperative Governance and traditional affairs subsidy (operational expenditure)	-	3,086,000
	175,721,300	173,558,976
Capital grants		
Expanded Public Works Programme (EPWP)	998,849	1,041,372
Department of Mineral and Energy Grant (INEG)	5,000,000	9,850,000
Municipal Infrastructure Grant (MIG)	45,078,000	52,069,711
Department of Water and Forestry Grant	-	74,241
Subsidy received from Provincial Treasury	11,639,876	-
Water Service Infrastructure Grant (WSIG)	16,411,188	-
	79,127,913	63,035,324
	254,849,213	236,594,300
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	78,955,426	78,955,426
Unconditional grants received	-	157,638,874
	78,955,426	236,594,300
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members..		
Current year receipts	160,570,000	157,638,874
Conditions met - transfer to revenue	(160,570,000)	(157,638,874)
	-	-
Department of Mineral and Energy Grant (INEG)		
Balance unspent at beginning of year	-	393,278
Current-year receipts	5,000,000	9,850,000
Conditions met - transferred to revenue	(5,000,000)	(9,850,000)
Grant withheld	-	(393,278)
	-	-

Conditions still to be met - remain liabilities (see note 18).

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

Department of Water and Forestry Grant

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018	2017
29. Government grants and subsidies (continued)		
Balance unspent at beginning of year	-	74,241
Conditions met - transferred to revenue	-	(74,241)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 18).

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

Municipal infrastructure Grant (MIG)

Balance unspent at beginning of year	288	16,618
Current-year receipts	45,078,000	52,070,000
Conditions met - transferred to revenue	(45,078,288)	(52,069,712)
Other	-	(16,618)
	<u>-</u>	<u>288</u>

Conditions still to be met - remain liabilities (see note 18).

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

LGSETA Grant

Conditions still to be met - remain liabilities (see note 18).

LGSETA grant is used for the skills development of the municipal employees as per the skills work plan.

Local Government Finance Management Grant (FMG)

Balance unspent at beginning of year	11	13,695
Current-year receipts	2,145,000	1,810,000
Conditions met - transferred to revenue	(2,093,067)	(1,809,989)
Grant withheld	-	(13,695)
	<u>51,944</u>	<u>11</u>

Conditions still to be met - remain liabilities (see note 18).

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

Expanded Public Works Programme (EPWP)

Balance unspent at beginning of year	36,628	-
Current-year receipts	1,000,000	1,078,000
Conditions met - transferred to revenue	(998,849)	(1,041,372)
	<u>37,779</u>	<u>36,628</u>

Conditions still to be met - remain liabilities (see note 18).

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

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018	2017
29. Government grants and subsidies (continued)		
Municipal Systems Improvement Grant (MSIG)		
Balance unspent at beginning of year	-	10,283
Grant withheld	-	(10,283)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 18).		
The grant is used to assist municipalities to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act and related legislation.		
Provincial Treasury subsidy (water and audit fees)		
Conditions still to be met - remain liabilities (see note 18).		
Provincial Treasury paid on behalf of Ngwathe for the installation of water meters (capital) and also for a part of their audit fees owing to the Auditor General.		
Provincial Treasury subsidy (electricity)		
Balance unspent at beginning of year	75,887	-
Current-year receipts	-	5,000,000
Conditions met - transferred to revenue	-	(4,924,113)
	<u>75,887</u>	<u>75,887</u>
Conditions still to be met - remain liabilities (see note 18).		
This grant relates to a subsidy for the purchase and installation of electricity meters.		
Cooperative Governance and Traditional Affairs (operational)		
Current-year receipts	-	3,086,000
Conditions met - transferred to revenue	-	(3,086,000)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 18).		
This grant relate to a subsidy for the payment of accounting consulting fees.		
Provincial Treasury subsidy (sewerage)		
Current-year receipts	19,100,000	6,100,000
Conditions met - transferred to revenue	(13,006,300)	(6,100,000)
	<u>6,093,700</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 18).		
This grant relate to a subsidy for the payment of maintenance cost relating to the sewerage plant.		
Water Service Infrastructure Grant (WSIG)		
Current-year receipts	30,720,929	-
Conditions met - transferred to revenue	(16,411,188)	-
	<u>14,309,741</u>	<u>-</u>

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

2018

2017

29. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 18).

This grant aims to accelerate the delivery of clean water and sanitation facilities to communities that do not have access to basic water services.

Regional Bulk Infrastructure Grant (RBIG)

Current-year receipts	15,000,000	-
Conditions met - transferred to revenue	(11,732,304)	-
	<u>3,267,696</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 18).

The purpose of the overall regional bulk programme is to develop an oversight function that will ensure the construction of enabling infrastructure and of operations and maintenance of regional bulk infrastructure in the water sector.

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018	2017
30. Employee related costs		
Basic	107,435,095	102,986,615
Bonus	9,997,139	9,101,978
Medical aid - company contributions	10,254,329	9,480,281
Unemployment insurance fund (UIF)	1,321,000	1,266,019
Other payroll levies	1,751,044	1,550,336
Leave pay provision charge	3,882,531	915,169
Service cost - employee benefits	29,329,000	3,125,000
Overtime payments	21,412,863	19,664,409
Pension fund contributions	18,182,536	18,227,485
Car allowance	5,474,068	4,919,963
Housing benefits and allowances	401,329	364,730
Other allowances	20,527,408	13,773,297
Group life insurance	1,461,027	1,388,434
	231,429,369	186,763,716
Remuneration of Municipal Manager (Kannemeyer BW)		
Annual Remuneration	922,072	301,510
Car Allowance	483,514	140,778
Contributions to UIF, Medical and Pension Funds	14,873	4,736
	1,420,459	447,024
Mr BW Kannemeyer has been appointed as Municipal Manager from March 2017.		
Remuneration of Chief Finance Officer (Samyala N)		
Annual Remuneration	260,223	744,522
Car Allowance	74,122	210,433
Contributions to UIF, Medical and Pension Funds	6,576	10,913
	340,921	965,868
N Samyala contract has expired in October 2017.		
Remuneration of Chief Finance Officer (Lebusa IS)		
Annual Remuneration	365,898	-
Car Allowance	490,898	-
Contributions to UIF, Medical and Pension Funds	4,584	-
	861,380	-
Mr Lebusa was appointed as CFO in February 2018.		
Remuneration Director Technical Services (Shabalala NE)		
Annual Remuneration	-	730,278
Car Allowance	-	224,705
Contributions to UIF, Medical and Pension Funds	-	10,885
	-	965,868
NE Shabalala contract has expired in June 2017.		
Remuneration of Director Community Services (Netshivhodza AB)		

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018	2017
30. Employee related costs (continued)		
Annual Remuneration	212,745	586,497
Car Allowance	107,235	318,766
Contributions to UIF, Medical and Pension Funds	21,201	60,074
	341,181	965,337

AB Netshivhodza contract has expired in October 2017.

Remuneration of Acting Director Corporate Services (Majivolo ZJ)

Annual Remuneration	777,471	499,531
Car Allowance	116,374	83,518
Contributions to UIF, Medical and Pension Funds	153,285	128,112
	1,047,130	711,161

Mr Majivolo has been acting as Director Corporate Services from November 2016 to June 2018.

Remuneration of Director Corporate Services (Tsekedi PS)

Annual Remuneration	184,631	823,649
Car Allowance	99,001	211,490
Contributions to UIF, Medical and Pension Funds	60,411	232,778
	344,043	1,267,917

PS Tsekedi contract has expired in October 2017.

Remuneration of Director of Technical Services (Thobela NB)

Annual Remuneration	717,713	-
Car Allowance	451,598	-
Contributions to UIF, Medical and Pension Funds	12,575	-
	1,181,886	-

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018	2017
<hr/>		
31. Remuneration of councillors		
Executive Major	842,614	812,551
Mayoral Committee Members	5,260,135	2,203,754
Speaker	677,329	623,610
Councillors	7,647,925	7,803,480
	<u>14,428,003</u>	<u>11,443,395</u>

In-kind benefits

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

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

The Mayor has one full-time bodyguard.

Salaries, allowances and benefits of political office bearers and councillors of the municipality are within the upper limits of the framework as envisaged by section 219 of the constitution.

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

2018

2017

31. Remuneration of councillors (continued)

Councillors 30 June 2017	Annual remuneration and backpay	Allowances	Company contributions	Total
Mochela MJ	594,132	207,278	11,140	812,550
Mopedi NP	482,846	132,998	7,766	623,610
Mbele MA	187,651	82,252	3,355	273,258
Mmusi M	214,484	87,377	-	301,861
Mofokeng MM	203,960	79,190	3,355	286,505
Mofokeng ML	251,059	82,211	3,796	337,066
Ndayi PR	294,746	98,954	7,132	400,832
Serathi M	262,223	84,583	4,693	351,499
Sotshiva LP	183,679	69,052	-	252,731
Choni SP	24,090	9,484	1,807	35,381
De Beer VE	191,256	81,159	-	272,415
De Jager AJ	30,558	12,959	-	43,517
De Jager SHF	191,468	80,947	-	272,415
Ferendale RS	191,468	80,947	-	272,415
Fieland H	170,434	69,052	-	239,486
Gobidolo M	170,434	69,052	-	239,486
Hlapane ML	30,558	12,859	-	43,417
Kgantse R	170,433	69,052	-	239,485
Khumalo JK	25,529	13,248	-	38,777
La Cock PJ	170,434	69,052	-	239,486
Mabena JS	170,434	69,052	-	239,486
Magashule IM	170,434	69,052	-	239,486
Mandelstam G	41,180	17,065	-	58,245
Masooa MJ	24,090	9,484	1,807	35,381
Matroos AH	170,434	69,052	-	239,486
Mehlo LR	190,363	79,541	3,355	273,259
Miyen M	170,434	69,052	-	239,486
Modiko DV	24,090	9,483	1,807	35,380
Mofokeng MD	191,468	80,947	-	272,415
Molaphene PM	183,560	80,947	-	264,507
Molotsane RJ	24,090	9,483	1,807	35,380
Motebele R	170,434	69,052	-	239,486
Motsumi ME	23,935	10,153	-	34,088
Mthimkulu S	30,558	12,959	-	43,517
Mvulane L	182,067	87,837	3,355	273,259
Ndlovu NA	30,083	12,022	2,256	44,361
Nteo S	170,434	69,052	-	239,486
Oliphant SAM	24,090	9,483	1,807	35,380
Radebe DM	30,083	11,922	2,256	44,261
Radebe S	170,433	69,052	-	239,485
Ramabista IM	30,083	12,022	2,256	44,361
Ranthako MC	24,090	9,483	1,807	35,380
Rapuleng MD	170,433	69,052	-	239,485
Scholtz F	30,558	12,959	-	43,517
Schoonwinkel A	237,084	84,937	17,781	339,802
Sehume A	191,468	80,947	-	272,415
Serfontein C	260,971	77,591	-	338,562
Sothoane EC	23,935	10,153	-	34,088
Swart AP	30,558	12,959	-	43,517
Taje M	170,433	69,052	-	239,485
Toyi MS	170,433	69,052	-	239,485
Thene LBS	170,433	69,052	-	239,485
Tlali LL	24,090	9,483	1,807	35,380
Van Der Merwe PP	193,268	80,947	-	274,215
Vandisi TL	31,859	14,093	2,389	48,341

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018		2017	
31. Remuneration of councillors (continued)				
Vermaak SM	185,952	73,953	13,946	273,851
	8,179,784	3,162,131	101,480	11,443,395
Councillors 30 June 2018	Annual remuneration and backpay	Allowances	Company contributions	Total
Mochela MJ	603,106	209,128	30,380	842,614
Ndayi PR	478,237	185,974	-	664,211
Matroos AH	205,420	100,509	-	305,929
Mopedi NP	538,542	138,787	-	677,329
Schoonwinkel A	204,388	86,662	14,879	305,929
Serathi M	478,237	185,974	-	664,211
De Beer VE	204,153	101,776	-	305,929
De Jager SHF	205,420	100,509	-	305,929
Ferendale RS	205,420	100,509	-	305,929
Fieland H	205,420	100,509	-	305,929
Gobidolo SM	205,420	100,509	-	305,929
Kgantse R	205,420	100,509	-	305,929
La Cock PJ	205,420	100,509	-	305,929
Mabena JS	205,420	100,509	-	305,929
Magashule IM	205,420	100,509	-	305,929
Mbele MA	478,237	185,974	-	664,211
Mehlo LR	205,420	100,509	-	305,929
Miyen MC	205,420	100,509	-	305,929
Mofokeng MD	205,420	-	-	205,420
Mofokeng ML	478,237	185,974	-	664,211
Mofokeng MM	478,237	185,974	-	664,211
Motebele R	155,565	73,881	-	229,446
Molaphene PM	205,420	100,509	-	305,929
Mvulane L	196,004	109,925	-	305,929
Nteo S	205,420	100,509	-	305,929
Radebe DM	205,420	100,509	-	305,929
Rapuleng MD	205,420	100,509	-	305,929
Sehumi NA	205,420	100,509	-	305,929
Serfontein C	205,420	100,509	-	305,929
Sotshiva LP	478,237	185,974	-	664,211
Taje M	205,420	100,509	-	305,929
Tete CF	49,855	26,327	-	76,182
Thene LBS	205,420	100,509	-	305,929
Toyi MS	205,420	100,509	-	305,929
Van der Merwe PP	205,420	100,509	-	305,929
Vermaak SM	204,388	86,662	14,879	305,929
Mmusi MG	478,237	185,974	-	664,211
	10,022,900	4,245,655	60,138	14,328,693
32. Depreciation and amortisation				
Property, plant and equipment			82,043,909	65,775,720
Intangible assets			800,092	459,102
			82,844,001	66,234,822

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018	2017
33. Finance costs		
Trade and other payables	35,674,690	101,391,913
Finance leases	-	55,930
Other financial liabilities	-	287,390
Late payment of tax	-	2,351,790
Employee benefits	-	2,492,846
	35,674,690	106,579,869
34. Debt impairment		
Debt impairment	74,379,059	(55,953,470)
<p>The recoverable amount of trade and other receivables was calculated on an individual basis per receivable based on past payment trends and individual risk categories. The difference between the recoverable amount and the gross balance per receivable was impaired for.</p>		
35. Bulk purchases		
Electricity	177,060,110	177,741,598
Water	37,752,577	34,394,863
	214,812,687	212,136,461
36. Contracted services		
Property, Plant and equipment	39,414,693	-
Security services	955,608	1,919,505
Other contractors	11,576,668	25,643,238
	51,946,969	27,562,743

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018	2017
37. General expenses		
Accommodation cost	-	1,384,196
Advertising	951,921	714,664
Auditors remuneration	2,795,041	4,975,074
Bank charges	1,396,342	1,317,190
Cleaning	-	969,384
Commission paid	4,541,262	5,494,327
Consulting and professional fees	-	10,154,477
Donations	-	215,000
Entertainment	983,314	744,329
Bursaries	-	957,071
Hire	3,382,820	6,526,951
Insurance	5,094,273	4,833,241
Rent - plant and vehicles	-	4,735,779
Legal fees	2,281,093	12,072,962
Project management unit expenditure	2,193,631	2,016,066
Fuel and oil	1,652,089	2,619,325
Postage and courier	1,812,058	2,507,155
Printing and stationery	1,877,817	2,538,051
Protective clothing	1,766,161	462,478
Financial systems (BCX)	4,036,849	3,312,297
Software expenses	-	1,038,364
Subscriptions and membership fees	-	1,946,788
Telephone and fax	5,933,934	4,878,649
Transport and freight	141,621	95,457
Training	225,748	263,134
Travel - local	147,872	924,774
EPWP expenditure	998,849	1,035,655
Chemicals	4,924,781	6,125,119
Employee wellness	-	1,750
Youth development	351,989	1,224,762
Licenses	2,982	14,411
Valuation Roll Expenses	-	898,114
Rehabilitation cost - landfill site	73,138,954	(1,256,964)
Organisational development strategy	-	269,260
Lease rentals on operating lease	1,766,944	6,785,541
Other expenses	11,322,949	5,137,733
	133,721,294	97,932,564
38. Fair value adjustments		
Investment property	309,851	6,074,488
Other financial assets		
• Other financial assets (Designated as at FV through P&L)	-	57,701
	309,851	6,132,189
39. Auditors' remuneration		
Fees	2,795,041	4,975,074

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018	2017
40. Cash generated from operations		
Deficit	(193,129,368)	(191,652,221)
Adjustments for:		
Depreciation and amortisation	82,844,001	66,234,822
Gain on sale of assets and liabilities	-	1,123,354
Fair value adjustments	(309,851)	(6,132,189)
Finance costs - Finance leases	-	103,884,759
Debt impairment	74,379,059	(55,953,470)
Movements in operating lease assets and accruals	-	173,235,102
Movements in retirement benefits and employee provisions	29,329,000	8,287,000
Movements in provisions	85,947,323	(3,926,117)
Actuarial gains / losses	-	(4,048,845)
Inventory losses / write-downs	-	(83,055)
Interest received on consumer receivables	-	(43,596,920)
Other	-	(53,875)
Correction of bank journals of prior year	(4,191,478)	-
Changes in working capital:		
Inventories	(106,326)	(106,517)
Receivables from exchange transactions	(74,573,285)	(90,663,417)
Consumer debtors	(74,379,059)	-
Receivables from non-exchange transactions	(6,785,197)	(8,928,499)
Sundry receivables	-	(4,774,131)
Payables from exchange transactions	189,130,329	167,757,922
VAT	(43,525,330)	(35,157,105)
Unspent conditional grants and receipts	23,764,717	(395,301)
Consumer deposits	(103,938)	(118,045)
	88,290,597	74,933,252

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018	2017
41. Commitments		
Authorised capital expenditure		
Already approved and contracted		
• Property, plant and equipment	<u>113,189,881</u>	<u>29,180,583</u>
Not yet contracted for and authorised by accounting officer		
• Property, plant and equipment	<u>81,383,779</u>	<u>-</u>
Total capital commitments		
Already contracted for but not provided for	113,189,881	29,180,583
Not yet contracted for and authorised by accounting officer	81,383,779	-
	<u>194,573,660</u>	<u>29,180,583</u>
Total commitments		
Total commitments		
Authorised capital expenditure	<u>194,573,660</u>	<u>29,180,583</u>
<p>This committed expenditure relates to plant and equipment and will be financed by available bank facilities, existing cashresources, MIG allocations during the year and funds internally generated.</p>		
Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	1,759,376	2,583,695
- in second to fifth year inclusive	2,449,817	4,209,193
	<u>4,209,193</u>	<u>6,792,888</u>

Operating lease payments represent rentals payable by the municipality for certain of its office and computer equipment and motor vehicles. Leases are negotiated for an average term of 5 years. No contingent rent is payable..

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

2018

2017

42. Contingencies

The municipality has the following contingent liabilities and contingent assets:

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

Court cases

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

SS Janika vs NLM

Opening balance	-	60,000
Adjustment	-	(60,000)
	<u>-</u>	<u>-</u>

Litigation is in the process against the municipality whereby the plaintiff was involved in an vehicle accident with the municipal refuse truck and the complainant was seeking damages to the amount disclosed above.

Matter was concluded during the 2016/17 year and the municipality won the case.

Attorneys: JC Burger Attorneys

Tsekema Consulting & Project Managers vs NLM

Opening balance	-	3,007,298
Payment	-	(3,007,298)
	<u>-</u>	<u>-</u>

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

The matter was concluded in the 2016/2017 year.

Attorneys: In-house

J Sekgalolo vs NLM

Opening balance	-	2,013,580
Payment	-	(2,013,580)
	<u>-</u>	<u>-</u>

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

The matter was concluded in the 2016/2017 year.

Attorneys: Mpoloane Attorneys

Latlonkana Marumo vs NLM

Opening balance	-	163,818
Adjustment	-	(83,818)
Payment	-	(80,000)
	<u>-</u>	<u>-</u>

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

2018

2017

42. Contingencies (continued)

Litigation is in the process against the municipality for failure to adhere to collective agreement in paying acting allowance to the amount disclosed above.

The matter was settled during the 2016/2017 year.

Attorney: Morris Rasegoete Attorneys

Nashua Communications vs NLM

Opening balance	-	521,380
Payment	-	(521,380)
	<u>-</u>	<u>-</u>

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

The matter was concluded during the 2016/2017 year.

Attorney: Moroka Attorneys

Sedgars vs NLM

Opening balance	-	12,000
Write off	-	(12,000)
	<u>-</u>	<u>-</u>

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

The matter was concluded during the 2016/2017 year and the municipality negotiated a write-off.

Attorney: Steyn Lyell & Maeyane Attorney

GH Manoto vs NLM

Opening balance	180,000	32,000
Adjustment	-	148,000
	<u>180,000</u>	<u>180,000</u>

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

The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as not likely.

Attorney: In-house

Busisiwe Mtimkulu vs NLM

Opening balance	-	2,715
Adjustment	-	(2,715)
	<u>-</u>	<u>-</u>

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

The matter was concluded during the 2016/2017 year and the municipality won the case.

Attorneys: JC Burger

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018	2017
42. Contingencies (continued)		
SAMWU obo Hlapane vs NLM		
Opening balance	400,000	400,000
Litigation is in the process against the municipality relating to the interpretation and application of the collective agreement and the complainant is seeking damages to the amount disclosed above.		
The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as not likely.		
Attorneys: ADW van den Berg Attorneys		
Telkom vs NLM		
Opening balance	-	7,238
Payment	-	(7,238)
	-	-
Litigation is in the process against the municipality relating to damages caused to Telkom infrastructure and the complainant is seeking damages to the amount disclosed above.		
The matter was concluded during the 2016/2017 year.		
Attorneys: ADW van den Berg Attorneys		
Ensemble Trading 2053 CC vs NLM		
Opening balance	450,000	150,000
Adjustment	-	300,000
	450,000	450,000
Litigation is in the process against the municipality for storage costs not being paid and the complainant is seeking damages to the amount disclosed above.		
The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as not likely.		
Attorney: In-house		
Rankakhakile Jona Mohohlo vs NLM		
Opening balance	-	16,994
Payment	-	(16,994)
	-	-
Litigation is in the process against the municipality for damages caused to vehicle due to potholes and the complainant is seeking damages to the amount disclosed above.		
The matter was concluded during the 2016/2017 year.		
Attorneys: Du Toit Mandelstam Incorporated		
Sibongile Community Trust vs NLM		
Opening balance	-	50,000
Adjustment	-	(50,000)
	-	-
Civil Litigation, The plaintiff withdrew the case in the 2016/2017 year.		

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018	2017
42. Contingencies (continued)		
Attorneys:JC Burger Attorneys		
Cornelius Henry Harris vs NLM		
Opening balance	-	40,000
Payment	-	(40,000)
	<u>-</u>	<u>-</u>

Public liability claim. Damages motor cycle due to porthole and plaintiff is claiming damages occurred.

The matter was concluded during the 2016/2017 year.

Attorneys:JC Burger Attorney

Dispute municipal account

Various plaintiffs	93,676	-
--------------------	--------	---

Dispute municipal account.

Negotiations are currently in progress with plaintiffs disputing municipal accounts. The municipality's lawyers and management is not able to reasonably estimate the potential liability. It is estimated that the cases should be resolved in the next two years.

Labour Matter

Madondo	2,000,000	-
BJ McDermott	700,000	-
	<u>2,700,000</u>	<u>-</u>

With regards to the labour matters listed above. There are some disputed invoices which have not been included in creditors on the financial statements. When the disputes have been resolved the creditors could be increased.

Contingent assets

NLM vs TJ Mokoena

Opening balance	125,000	125,000
-----------------	---------	---------

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

The municipality's lawyers and management consider the likelihood of the action against Mr TJ Mokoena being successful as likely.

Attorneys: Lebea & Associates

43. Related parties

Relationships

Members of key management	Refer to note 30
Members of council	Refer to note 31

No related party transactions were identified by management.

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

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

44. Prior-year adjustments

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

Statement of financial position

2017

	Note	As previously reported	Correction of error	Change in accounting policy	Re-classification	Restated
Investment Property	10	116,519,727	(11,200)	(18,681,007)	(71,643,320)	26,184,200
Land	11	16,684,309	(3,262,699)	-	260,994,461	274,416,071
Buildings	11	64,278,571	15,573,712	-	(17,934,999)	61,917,284
Infrastructure	11	1,331,655,493	(47,175,040)	-	(208,252,841)	1,076,227,612
Computer Equipment	11	3,594,544	730,007	-	-	4,324,551
Furniture & Fittings	11	8,780,135	737,583	-	-	9,517,718
Machinery & Equipment	11	3,766,283	(186,489)	-	-	3,579,794
Motor Vehicles	11	17,302,648	-	-	-	17,302,648
Office Equipment	11	909,140	101,606	-	-	1,010,746
Buildings - Accumulated depreciation	11	(28,568,254)	13,979,463	-	-	(14,588,791)
Infrastructure - Accumulated depreciation	11	(599,255,798)	10,297,815	-	-	(588,957,983)
IT Equipment - Accumulated depreciation	11	(2,320,940)	(578,152)	-	-	(2,899,092)
Furniture and Equipment - Accumulated depreciation	11	(7,700,409)	671,399	-	-	(7,029,010)
Machinery and Equipment - Accumulated depreciation	11	(2,507,945)	629,354	-	-	(1,878,591)
Motor Vehicles - Accumulated depreciation	11	(13,773,329)	2,305,518	-	-	(11,467,811)
Office Equipment - Accumulated depreciation	11	(657,592)	(34,770)	-	-	(692,362)
Payables from exchange transactions	16	(1,028,292,373)	25,024,148	-	-	(1,003,268,225)
Accumulated deficit		(170,023,085)	8,217,893	-	-	(161,805,192)
		(289,608,875)	27,020,148	(18,681,007)	(36,836,699)	(318,106,433)

Statement of financial performance

2017

	Note	As previously reported	Re-classification	Restated
Repairs and maintenance	55	25,643,238	(25,643,238)	-
Contracted services	36	1,919,505	25,643,238	27,562,743
Surplus for the year		27,562,743	-	27,562,743

45. Prior period errors

During the 2017 audit, the auditor identified differences between the asset register and the annual financial statements. The municipality embarked on an extensive verification to try and solve these differences and to verify the existence of all municipal assets.

The correction of the error(s) results in adjustments as follows:

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

45. Prior period errors (continued)

Statement of financial position

Property, plant and equipment	-	(74,798,233)
Investment Property	-	90,335,527
Opening Accumulated Surplus or Deficit	-	(15,537,294)

During the 2017 audit, the auditor identified differences between the creditors control account and the annual financial statements. The municipality did a detail verification process to try and solve this differences and to verify the existence of all creditors.

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Payables from exchange transactions	-	25,024,148
	-	-
Opening Accumulated Surplus or Deficit	-	(25,024,148)

46. Risk management

Financial risk management

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

Liquidity risk

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

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

At 30 June 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Consumer deposits	5,145,758	-	-	-
Finance lease obligation	42,418	-	-	-
Other financial liabilities	-	-	-	-
Payables from exchange transactions	1,192,398,553	-	-	-
Unspent conditional grants and receipts	23,877,531	-	-	-
At 30 June 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Other financial liabilities	734,332	-	-	-
Payables from exchange transactions	1,003,268,224	-	-	-
Unspent conditional grants and receipts	112,814	-	-	-
Consumer deposits	5,249,696	-	-	-
Finance lease obligation	313,060	42,418	-	-

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

46. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade receivables. 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 evaluated credit risk relating to customers on an ongoing basis. Risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

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

Financial instrument	2018	2017
Other financial assets	991,799	911,546

Market risk

Interest rate risk

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

47. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had accumulated loss of R (359,126,034) and that the municipality's total liabilities exceed its assets by R (359,126,034).

The municipality is experiencing some financial difficulties, indicators are as follows:

- suppliers are not paid within the legislative 30 days;
- employee benefit obligations are unfunded;
- high levels of electricity distribution losses;
- slow collection and low recoverability of outstanding consumer accounts; and
- unfavorable financial ratios.

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 government continue to procure funding for the ongoing operations for the municipality.

48. Events after the reporting date

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

49. Unauthorised expenditure

Opening balance	396,108,159	316,434,915
Incurred during the current year	354,736,074	79,673,244
	<u>750,844,233</u>	<u>396,108,159</u>

Management performed a review of transactions and identified the above transactions to be unauthorised expenditure in accordance to the guidelines set per Chapter 1 of the MFMA. The unauthorise expenditure relate to overspending on operational spending for VOTE **Planing and development**.

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

49. Unauthorised expenditure (continued)

A Municipal Public Accountant Committee is to convene to analyse and review the findings on unauthorised expenditure incurred, upon the recommendations provided by the Municipal Public Accountant Committee to Council, Council will resolve either to condone / authorised or recover the unauthorised expenditure as stated above.

50. Fruitless and wasteful expenditure

Opening balance	177,750,330	74,252,491
Incurred in the current year	35,631,889	103,497,839
	213,382,219	177,750,330

Management performed a review of transactions and identified the above transactions to be fruitless and wasteful expenditure in accordance to the guidelines set per Chapter 1 of the MFMA. The fruitless and wasteful expenditure relate to interest charge on overdue account see details below:

Details of fruitless and wasteful expenditure incurred in the current year

ABSA bank (Interest)	-	54,464
Auditor General of South Africa (AGSA) (Interest)	106,411	20,871
Department of Water Affairs (DWA) (Interest)	-	446,366
ESKOM (Interest)	110,552,313	100,355,478
ESKOM NMD	5,696,930	-
Rand Water	51,741	-
OFS pension fund (Interest)	4,271	690
Rand water (Interest)	-	233,129
SALA pension fund (Interest)	23,354	7,417
SAMWU provident fund (Interest)	18,713	10,924
SARS - EMP (Interest and penalties)	3,300,642	2,039,258
SARS - VAT (Interest and penalties)	367,740	312,532
TELKOM (Interest)	52,854	26,710
NFMW	46,896	-
Business Connexion (BCX)	69,382	-
	71,263,671	207,015,678
ESKOM Interest write-off	(84,659,465)	-
TOTAL	35,631,889	103,507,839

Management has concluded a repayment agreement with ESKOM to settle outstanding capital amount and section 6.2 of the agreement ESKOM expressly agrees that the outstanding capital amount will not be subject to any further interest should the municipality comply with the payment obligation. The municipality has complied with the repayment agreement terms from October 2017 up to the end of June 2018, therefore, interest accrued for the period will be written-off by Eskom.

A Municipal Public Accountant Committee is to convene to analyse and review the findings on unauthorised expenditure incurred, upon the recommendations provided by the Municipal Public Accountant Committee to Council, Council will resolve either to condone / authorised or recover the unauthorised expenditure as stated above.

51. Irregular expenditure

Opening balance	176,309,074	65,687,569
Add: Irregular expenditure - current year	97,136,638	102,412,393
Add: Irregular expenditure prior year 2015/2016	-	8,209,112
	273,445,712	176,309,074

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

51. Irregular expenditure (continued)

Analysis of expenditure awaiting investigation per age classification

Current year	97,136,638	102,412,393
Prior years	176,309,074	73,896,681
	273,445,712	176,309,074

A detailed register of all Irregular Register is kept by the Municipality and is available for inspection.

Details of irregular expenditure – identified current year

Procurement regulations not followed for purchases between R2 000 and R10 000 and no deviation documented.	Non-compliance to the Supply Chain Policy	611,664
Procurement regulations not followed for purchases between R10 001 and R30 000 and no deviation documented.	Non-compliance to the Supply Chain Policy	2,299,257
Procurement regulations not followed for purchases between R30 001 and R200 000 and no deviation documented.	Non-compliance to the Supply Chain Policy	23,879,205
Procurement regulations not followed for purchases more than R200 000 and no deviation documented.	Non-compliance to the Supply Chain Policy	70,346,512
		97,136,638

Management has performed a review of transactions and identify transactions which did not comply with SCM Regulation and SCM Procurement Policy of Council, those expenditures were classified as irregular expenditure in accordance to the guidelines set per Chapter 1 of the MFMA.

A Municipal Public Accountant Committee is to convene to investigate the findings on irregular expenditure incurred, upon the recommendations provided by the Municipal Public Accountant Committee to Council, Council will resolve either to condone / write-off expenditure as irrecoverable or recover the irregular expenditure as stated above.

52. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	541,230	482,315
Current year subscription / fee	2,328,751	1,713,775
Amount paid - current year	(1,905,329)	(1,654,860)
	964,652	541,230

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

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

Distribution losses

Water	-	-
Total units sold	(5,259,330)	-
Total units purchased	9,449,193	-
Water losses	-	59,721,748
	4,189,863	59,721,748
Loss	44%	54%

The difference on sale of water was due to water estimates made Department of Water affairs as there are no water bulk meters.

Electricity

Total units sold	70,295,152	71,512,765
Total units purchased	194,069,709	189,608,940
	264,364,861	261,121,705
Distribution loss	64%	62%

Audit fees

Opening balance	2,521,980	(450,753)
Current year subscription / fee	4,011,270	5,797,771
Amount paid - current year	(6,675,005)	(2,825,038)
	(141,755)	2,521,980

PAYE, UIF and SDL

Opening balance	5,481,530	2,410,563
Current year subscription / fee	32,903,107	26,666,935
Amount paid - current year	(28,578,047)	(23,595,968)
	9,806,590	5,481,530

VAT

VAT receivable	155,252,956	111,727,626
----------------	-------------	-------------

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

30 June 2018	Outstanding less than 90 days	Outstanding more than 90 days	Total
Matroos AH	1	53	54
Gobidolo SM*	1,452	7,532	8,984
Fieland H*	1,595	14,115	15,710
Taje ME*	4,322	79,342	83,664
De Beer V *	1,916	3,048	4,964
Miyen M	1,556	24,607	26,163
Ferendale R *	1,255	22,915	24,170
Mvulane SL*	1,065	759	1,824
Motebele R *	1,023	1,142	2,165
	14,185	153,513	167,698

* These councillors have payment arrangements in place.

30 June 2017	Outstanding less than 90 days	Outstanding more than 90 days	Total
Bocibo CN	-	4,317	4,317
De Jager A	-	46,097	46,097
Ferendale RS	-	30,357	30,357
Fieland H	-	20,378	20,378
Gobidolo SM	-	19,307	19,307
Mmusi MG	-	359	359
Molaphene PM	-	885	885
Motebele R	-	2,593	2,593
Motsumi ME	-	21,306	21,306
Nteo S	-	5,404	5,404
Rapuleng MD	-	1,526	1,526
Taje M	-	2,283	2,283
	-	154,812	154,812

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

53. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations. The expenses incurred as listed hereunder have been approved:

Category of services

Emergency services	16,841,187	77,000
Sole provider	-	82,018
Impractically or impossible	-	65,936
	<u>16,841,187</u>	<u>224,954</u>

54. Budget differences

Material differences between budget and actual amounts

Management considers any variances above 10% to be significant

- 54.1 - Management was unable to collect and bill as expected per budget due to weak internal controls on revenue section,
- 54.2 - Rental equipment were not able to generate rental income as budgeted, this might be due to the fact that they are not adequately maintained.
- 54.3 - Municipality over budgeted as they have expected to receive more other income from festivals that were held in Parys.
- 54.4 - The municipality did not take into account interest charged on outstanding receivables.
- 54.5 - Management over budgeted based on incorrect escalation of tariffs.
- 54.6 - Management collected more fines than was expected, due to illegal connections that were identified on the water and electricity.
- 54.7 - Management spent more on employee cost due to acting allowance, overtime.
- 54.8 - Management budgeted less for depreciation.
- 54.9 - Management budgeted more for impairment.
- 54.10 - Management budgeted less on finance cost, Management budgeted less on Eskom based on the repayment terms entered into with the current Municipal Manager.
- 54.11 - Management did not expect to spend more on repairs and maintenance hence less budget.
- 54.12 - Management did not take into account distribution losses, hence less budget on bulk purchases.
- 54.13 - Management budgeted less on contracted services, this is due to the fact that management planned to perform some of its services internally rather than to contract them out.
- 54.14 - Management spent less on general expenses, this might be due to cash flow constraints or priorities on creditors payments.

Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

54. Budget differences (continued)

54.18 - Management did not budget for this expenses

54.15 - Management billed more than expected and new impairment methodology was used.

15.16 - Budgeted was based on last financial year balance as at 30 June 2016, municipality has less than expected

54.17 - Newly found assets were capitalised and new projects that were started in the 2016/17 financial year are included in WIP.

54.18 - New computer software were purchased in the financial year.

54.19 - Management over budgeted on other financial assets.

54.20 - Management planned to acquire additional financial assistance from DBSA in the 2016/2017 financial year.

54.21 - Management was unable to pay Eskom and Rand water on time hence an increase in payables.

54.22 - Management anticipated project delays due to change in senior positions hence the unspent.

54.23 - Combination of short term and long term is less than 10%.

54.24 - Management anticipated council to approve the organisational structure hence the over budgeted on employee benefits.

54.25 - Management expected more revenue to be collected through the assistance of Bonakude on revenue enhancement.

54.26 - Management expected to collect their debtors accounts on time through assistance of Bonakude and interest were to decrease.

54.27 - Management anticipated to receive dividends on other financial assets held.

54.28 - Municipality over budgeted on other receipts.

54.29 - Management expected to pay Eskom, DWA and Rand Water on time during the year, hence less budget on finance cost.

54.30 - Management budgeted based on Municipal Infrastructure Grant only and not taking in to accounts other projects.

55. Repairs and maintenance

During the current year, the Municipality adopted the Municipal Standard Chart of Accounts (mSCOA).

Currently, in mSCOA, the item segment do not hold information about repairs and maintenance. This information will obtain via the project segment.

However, it has been common practice in the prior year to disclose repairs and maintenance information in the Annual Financial Statements.

Asf this line item will not be presented in the current year, it require the reclassification of the prior year "Repairs and maintenance" line item and it will require this line item to be allocated to employee related costs, other material and contracted services.