



**NDLAMBE LOCAL MUNICIPALITY**

**Audited Annual Financial Statements  
for the year ended 30 June 2016**

**AUDITOR - GENERAL  
SOUTH AFRICA**

**15 DEC 2016**

# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

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<b>Legal form of entity</b>	Ndlambe Municipality (EC 105) is a local municipality performing the functions as set out in the Constitution. (Act no 108 of 1996)
<b>Nature of business and principal activities</b>	Local Government
<b>Mayoral committee</b>	
<b>Mayor</b>	Councillor SR Tandani
<b>Speaker</b>	Councillor NV Maphaphu
<b>Executive Councillors</b>	Councillor SB Funde - Infrastructure Portfolio Councillor M Mateti - Community Protection Portfolio Councillor LR Schenk - Finance and Corporate Services Portfolio Councillor KC Ncamiso - MPAC Chairperson
<b>Councillors</b>	Councillor GG Cannon Councillor TLE Khoathani Councillor Z Ngxingo Councillor NT Donile Councillor JP Guest Councillor T Mazana Councillor JM Cowley Councillor MJ Tarentaal Councillor S Venene Councillor N Xhasa Councillor C Meterlekamp Councillor PP Faxi Councillor ME Msimang Councillor K Daweti
<b>Accounting Officer</b>	R Dumezweni
<b>Business address</b>	47 Campbell Street Port Alfred 6170
<b>Postal address</b>	P O Box 13 Port Alfred 6170
<b>Bankers</b>	First National Bank
<b>Auditors</b>	Auditor General
<b>Jurisdiction</b>	The Ndlambe Municipality includes the following areas: Port Alfred Bathurst Alexandria Kenton-on-sea Cannon-Rocks

# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

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

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### Abbreviations

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

## **Ndlambe Local Municipality**

**Audited Annual Financial Statements for the year ended 30 June 2016**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the audited annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the audited 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 audited annual financial statements and was given unrestricted access to all financial records and related data.

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The audited annual financial statements set out on pages 4 to 80, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed on its behalf by:

  
\_\_\_\_\_  
R Dumezweni  
Municipal Manager

# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

## Statement of Financial Position as at 30 June 2016

Figures in South African Rand

	Note(s)	2016	2015 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories			
Receivables from non-exchange transactions	3	724 378	858 933
Receivables from exchange transactions	4	14 668 278	9 500 940
Cash and cash equivalents	5	21 828 069	23 911 329
Operating lease asset	6	31 355 566	28 720 873
	7	354 437	354 822
		<u>68 930 728</u>	<u>63 346 897</u>
<b>Non-Current Assets</b>			
Investment property			
Property, plant and equipment	8	189 464 492	190 640 951
Intangible assets	9	597 591 302	603 099 749
Heritage assets	10	300 736	439 291
Other financial assets	11	16	16
	12	141 525	144 979
		<u>787 498 071</u>	<u>794 324 986</u>
<b>Total Assets</b>		<u>856 428 799</u>	<u>857 671 883</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Consumer deposits			
Payables	14	1 749 301	1 700 733
Unspent conditional grants and receipts	15	45 215 744	49 432 428
VAT payable	16	6 488 867	9 280 442
Financial liabilities - DBSA	17	5 608 242	4 648 517
Operating lease liability	18	1 990 300	4 370 239
Employee benefit obligation	7	55 134	23 464
Provisions	19	1 815 300	1 590 000
	20	11 089 223	1 696 616
		<u>74 012 111</u>	<u>72 722 439</u>
<b>Non-Current Liabilities</b>			
Financial liabilities - DBSA	18	13 891 090	15 404 512
Employee benefit obligation	19	59 033 541	47 775 000
Provisions	20	20 315 910	22 454 111
		<u>93 240 541</u>	<u>85 633 623</u>
<b>Total Liabilities</b>		<u>167 252 652</u>	<u>158 356 062</u>
<b>Net Assets</b>		<u>689 176 147</u>	<u>699 315 821</u>
<b>Net Assets</b>			
Accumulated surplus		689 176 148	699 315 822

\* See Note 45

## Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

### Statement of Financial Performance

Figures in South African Rand	Note(s)	2016	2015 Restated*
<b>Revenue</b>			
Property rates	21	76 545 466	68 004 287
Service charges	22	101 364 771	94 344 506
Government grants & subsidies	23	116 603 684	105 507 985
Rendering of services (burial fees)		215 266	179 577
Rental of facilities and equipment		1 267 842	1 213 958
Licences and permits		3 599 730	3 957 916
Rental income		2 464	4 038
Other income	24	3 134 049	2 807 086
Interest received	25	8 571 267	7 341 694
Public contributions and donations		-	33 926 611
Fines, Penalties and Forfeits		455 795	606 110
<b>Total revenue</b>	26	<b>311 760 134</b>	<b>317 893 768</b>
<b>Expenditure</b>			
Employee related costs	27	(122 051 165)	(100 661 985)
Remuneration of councillors	28	(5 959 606)	(5 608 728)
Depreciation and amortisation	29	(36 187 615)	(35 209 392)
Impairment loss/ Reversal of impairments		-	(195 312)
Finance costs	30	(2 011 577)	(2 461 170)
Lease rentals on operating lease		(2 811 784)	(2 453 000)
Debt Impairment	31	(15 053 182)	(16 731 643)
Repairs and maintenance		(13 036 958)	(12 342 291)
Bulk purchases	33	(50 507 651)	(46 405 121)
Contracted services		(17 555 843)	(20 516 371)
Renewable Energy Programmes		(3 675 592)	(3 875 720)
Transfers and Subsidies	34	(830 173)	(865 294)
General Expenses	35	(43 618 139)	(38 111 945)
<b>Total expenditure</b>		<b>(313 299 265)</b>	<b>(285 437 972)</b>
<b>Operating (deficit) surplus</b>		<b>(1 539 161)</b>	<b>32 455 796</b>
Loss on disposal of assets and liabilities		(1 358 954)	(501 924)
Fair value adjustments	36	(7 241 569)	2 815 242
		<b>(8 600 523)</b>	<b>2 313 318</b>
<b>(Deficit) surplus for the year</b>		<b>(10 139 674)</b>	<b>34 769 114</b>

\* See Note 45

# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

## Statement of Changes in Net Assets

Figures in South African Rand	Note(s)	Accumulated surplus	Total net assets
Opening balance as previously reported		669 171 882	669 171 882
Adjustments			
Prior period errors	45	(4 625 174)	(4 625 174)
<b>Balance at 01 July 2014 as restated*</b>		<b>664 546 708</b>	<b>664 546 708</b>
Changes in net assets			
Surplus for the year		34 769 114	34 769 114
Total changes		34 769 114	34 769 114
<b>Restated* Balance at 01 July 2015</b>		<b>699 315 822</b>	<b>699 315 822</b>
Changes in net assets			
Surplus for the year		(10 139 674)	(10 139 674)
Total changes		(10 139 674)	(10 139 674)
<b>Balance at 30 June 2016</b>		<b>689 176 148</b>	<b>689 176 148</b>

\* See Note 45

# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

## Cash Flow Statement

Figures in South African Rand	Note(s)	2016	2015 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Rates and Services		165 817 804	141 601 073
Government Grants and Subsidies		116 603 684	105 507 985
Interest income		8 571 267	7 341 684
Other receipts		3 589 844	3 413 196
		<u>294 582 599</u>	<u>257 863 948</u>
<b>Payments</b>			
Employee costs		(128 014 772)	(106 270 713)
Suppliers		(127 305 089)	(108 055 199)
Finance costs		(2 011 577)	(2 461 170)
		<u>(257 331 438)</u>	<u>(216 787 082)</u>
<b>Net cash flows from operating activities</b>	37	<u>37 251 161</u>	<u>41 076 866</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	9	(30 717 860)	(29 518 743)
Purchase of other intangible assets	10	(5 248)	(209 898)
<b>Net cash flows from investing activities</b>		<u>(30 723 108)</u>	<u>(29 728 641)</u>
<b>Cash flows from financing activities</b>			
Movement in Long term Liabilities		(3 893 360)	(3 898 542)
<b>Net cash flows from financing activities</b>		<u>(3 893 360)</u>	<u>(3 898 542)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>2 634 693</b>	<b>7 449 683</b>
Cash and cash equivalents at the beginning of the year		28 720 873	21 271 190
<b>Cash and cash equivalents at the end of the year</b>	6	<u>31 355 566</u>	<u>28 720 873</u>

\* See Note 45



# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in South African Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	133 233 162	(703 186)	132 529 976	101 364 771	(31 165 205)	47.1
Rendering of services	216 944	-	216 944	215 266	(1 678)	47.2
Rental of facilities and equipment	4 283 558	-	4 283 558	1 267 642	(3 015 916)	47.3
Licences and permits	4 510 301	-	4 510 301	3 599 730	(910 571)	47.4
Rental income	5 712	-	5 712	2 464	(3 248)	47.5
Other income - (rollup)	3 122 011	-	3 122 011	3 134 049	12 038	47.6
Interest received - investment	6 959 923	-	6 959 923	8 571 267	1 611 344	47.7
<b>Total revenue from exchange transactions</b>	<b>152 331 611</b>	<b>(703 186)</b>	<b>151 628 425</b>	<b>118 155 189</b>	<b>(33 473 236)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	95 310 344	-	95 310 344	76 545 468	(18 764 878)	47.8
<b>Transfer revenue</b>						
Government grants & subsidies	115 168 963	-	115 168 963	116 603 684	1 434 721	47.9
Fines, Penalties and Forfeits	714 341	-	714 341	455 795	(258 546)	47.10
<b>Total revenue from non-exchange transactions</b>	<b>211 193 648</b>	<b>-</b>	<b>211 193 648</b>	<b>193 604 945</b>	<b>(17 588 703)</b>	
<b>Total revenue</b>	<b>363 525 259</b>	<b>(703 186)</b>	<b>362 822 073</b>	<b>311 760 134</b>	<b>(51 061 939)</b>	
<b>Expenditure</b>						
Personnel	(107 488 322)	(378 431)	(107 866 753)	(122 051 165)	(14 184 412)	47.11
Remuneration of councillors	(5 954 435)	-	(5 954 435)	(5 959 606)	(5 171)	47.12
Alternative energy programmes	(6 051 151)	21 647	(6 029 504)	(3 675 592)	2 353 912	47.13
Depreciation and amortisation	(4 913 912)	-	(4 913 912)	(36 187 615)	(31 273 703)	47.14
Finance costs	(2 754 320)	-	(2 754 320)	(2 011 577)	742 743	47.15
Lease rentals on operating lease	(2 976 470)	(47 211)	(3 023 681)	(2 811 784)	211 897	47.16
Debt Impairment	(16 581 223)	-	(16 581 223)	(15 053 182)	1 528 041	47.17
Repairs and maintenance	(21 123 227)	905 879	(20 217 348)	(13 036 958)	7 180 390	47.18
Bulk purchases	(49 892 344)	10 000	(49 882 344)	(50 507 651)	(625 307)	47.19
Contracted Services	(14 741 123)	305 000	(14 436 123)	(17 555 843)	(3 119 720)	47.20
Transfers and Subsidies	(1 098 500)	-	(1 098 500)	(830 173)	268 327	47.21
General Expenses	(98 514 986)	797 303	(97 717 683)	(43 618 139)	54 099 544	47.22
<b>Total expenditure</b>	<b>(332 090 013)</b>	<b>1 614 187</b>	<b>(330 475 826)</b>	<b>(313 299 285)</b>	<b>17 176 541</b>	
<b>Operating deficit</b>	<b>31 435 246</b>	<b>911 001</b>	<b>32 346 247</b>	<b>(1 539 151)</b>	<b>(33 885 398)</b>	
Loss on disposal of assets and liabilities	(18 760)	-	(16 760)	(1 358 954)	(1 342 194)	47.23
Fair value adjustments	5 750	-	5 750	(7 241 569)	(7 247 319)	47.24
	(11 010)	-	(11 010)	(8 600 523)	(8 589 513)	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>31 424 236</b>	<b>911 001</b>	<b>32 335 237</b>	<b>(10 139 674)</b>	<b>(42 474 911)</b>	

# **Ndlambe Local Municipality**

Audited Annual Financial Statements for the year ended 30 June 2016

## **Accounting Policies**

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### **1. Presentation of Audited Annual Financial Statements**

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

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

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

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

#### **1.1 Presentation currency**

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

The figures have been rounded to the nearest Rand.

#### **1.2 Going concern assumption**

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

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

In preparing the audited annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the audited 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 audited annual financial statements. Significant judgements include:

##### **Trade receivables / Held to maturity investments and/or loans and receivables**

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

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

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

##### **Fair value estimation**

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

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

# **Ndlambe Local Municipality**

Audited Annual Financial Statements for the year ended 30 June 2016

## **Accounting Policies**

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

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

# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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

#### Impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. 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. They are significantly affected by a number of factors, including economic.

#### 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 & 20 - Provisions.

#### Useful lives of waste and water network and other assets

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

#### Post retirement benefits

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

Other key assumptions for post retirement obligations are based on current market conditions. Additional information is disclosed in Note 19.

#### Effective interest rate

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

#### Allowance for doubtful debts

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

### 1.4 Investment property

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

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

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

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

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

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

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

# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.4 Investment property (continued)

#### Cost model

Investment property is carried at cost less accumulated depreciation less any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	30 years

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 is 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.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, are as follows:

### 1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

## **Ndlambe Local Municipality**

Audited Annual Financial Statements for the year ended 30 June 2016

### **Accounting Policies**

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

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

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

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

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

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

Property, plant and equipment 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 restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

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.

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

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

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

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

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

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

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

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

# Ndlambe Local Municipality

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## Accounting Policies

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

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

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight line	50 Years
Plant and machinery	Straight line	15 Years
Motor vehicles	Straight line	5 - 15 Years
Office equipment	Straight line	3 - 5 Years
IT equipment	Straight line	3 - 5 Years
Community	Straight line	10 - 30 Years
Electricity Network	Straight line	20 - 30 Years
Roads	Straight line	20 Years
Wastewater network	Straight line	20 Years
Water network	Straight line	20 Years

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

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

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

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

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

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

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

### 1.6 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

# Ndlambe Local Municipality

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## Accounting Policies

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### 1.6 Intangible assets (continued)

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

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

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Useful life
Computer software, other	3 years

### 1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the audited annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

#### Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.



# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.7 Heritage assets (continued)

#### Initial measurement

Heritage assets are measured at cost.

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

#### Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

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

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

### 1.8 Financial Instruments

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

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

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

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

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

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

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

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

A financial asset is:

- cash;

# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.8 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- derivatives;
- combined instruments that are designated at fair value;

# Ndlambe Local Municipality

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## Accounting Policies

### 1.8 Financial Instruments (continued)

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

#### Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents (funds and call accounts)	Financial asset measured at amortised cost
Cash and cash equivalents (notice accounts)	Financial asset measured at amortised cost
Other financial assets	Financial asset at fair value

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

Class	Category
Payables	Financial liability measured at amortised cost
DBSA Loan	Financial liability measured at amortised cost

#### Initial recognition

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

The entity recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

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

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

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

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

# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

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

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

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

#### Fair value measurement considerations

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

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

#### Gains and losses

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

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

#### Impairment and uncollectibility of financial assets

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

#### Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR 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 directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

#### Financial assets measured at cost:

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

# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Derecognition

##### Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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

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

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

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

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

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

##### Financial liabilities

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

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

# **Ndlambe Local Municipality**

Audited Annual Financial Statements for the year ended 30 June 2016

## **Accounting Policies**

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### **1.8 Financial Instruments (continued)**

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

### **1.9 Leases**

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

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

#### **Finance leases - lessor**

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

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

#### **Finance leases - lessee**

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

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

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

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

#### **Operating leases - lessor**

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

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

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

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

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

#### **Operating leases - lessee**

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

### **1.10 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.

# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.10 Inventories (continued)

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

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

### 1.11 Impairment of cash-generating assets

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

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

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

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

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

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

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

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

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

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

# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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

#### 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.

#### Value in use

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

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

#### Basis for estimates of future cash flows

In measuring value in use the municipality uses:

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

#### Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

#### 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



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

- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

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

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

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

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

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

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

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

#### 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 entity estimates the recoverable amount of that asset.

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

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

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

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

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

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

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

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

# Ndlambe Local Municipality

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## Accounting Policies

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

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

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

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

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

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

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

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

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

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

Useful life is either:

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

#### Identification

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

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

Irrespective of whether there is any indication of impairment, the entity also 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 was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Value in use

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

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

#### Depreciated replacement cost approach

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

# Ndlambe Local Municipality

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## Accounting Policies

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

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an oversized or overcapacity asset. Oversized 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.

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

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

#### Reversal of an impairment loss

The municipality 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.

### 1.13 Employee benefits

#### Short-term employee benefits

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

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

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

# **Ndlambe Local Municipality**

Audited Annual Financial Statements for the year ended 30 June 2016

## **Accounting Policies**

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### **1.13 Employee benefits (continued)**

#### **Defined contribution plans**

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

#### **Defined benefit plans**

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

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

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

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

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

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

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

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

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

#### **Other post retirement obligations**

The municipality provides post-retirement health care benefits upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The entity also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

### **1.14 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.

# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.14 Provisions and contingencies (continued)

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

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

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

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

Provisions are not recognised for future operating deficits.

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

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

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

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

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

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

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

# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.14 Provisions and contingencies (continued)

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

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

### Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

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.

### 1.15 Revenue from exchange transactions

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

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

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

#### Measurement

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

#### Sale of goods

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

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

# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.15 Revenue from exchange transactions (continued)

#### Rendering of services

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

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

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

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

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

#### Interest, royalties and dividends

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

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

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

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

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

### 1.16 Revenue from non-exchange transactions

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

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

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

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

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

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

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

## **Ndlambe Local Municipality**

Audited Annual Financial Statements for the year ended 30 June 2016

### **Accounting Policies**

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

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

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

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

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

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

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

#### **Recognition**

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

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

#### **Measurement**

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

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



# **Ndlambe Local Municipality**

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## **Accounting Policies**

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

#### **Taxes**

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

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

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

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

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

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

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

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

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

#### **Transfers**

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

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

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

#### **Fines**

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

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

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

### **1.17 Investment income**

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

### **1.18 Borrowing costs**

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

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

### **1.19 Comparative figures**

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

# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.20 Unauthorised expenditure

Unauthorised expenditure means:

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

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

### 1.21 Fruitless and wasteful expenditure

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

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

### 1.22 Irregular expenditure

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

### 1.23 Conditional grants and receipts

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

### 1.24 Segment information

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

### 1.25 Budget information

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

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

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

The approved budget covers the fiscal period from 2012/07/01 to 2013/06/30.

The audited 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

# **Ndlambe Local Municipality**

Audited Annual Financial Statements for the year ended 30 June 2016

## **Accounting Policies**

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### **1.26 Related parties**

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

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

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

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

### **1.27 Events after reporting date**

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

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

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

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

### **1.28 Commitments**

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash. A commitment is disclosed to the extent that it has not already been recognized elsewhere in the financial statements.

At the end of each financial period the municipality determines commitments in respect of capital expenditure in terms of GRAP 17 that has been approved and contracted for.

### **1.29 Material Losses (Water and Electricity)**

Water and electricity losses are required to be disclosed as part of the material loss disclosure of the MFMA Section 125. Losses are calculated on the following basis -

Nr of units of lost supply, being the difference between what was supplied and what has been sold at the per unit tariff rate.

The unit tariff rate, in the case of electricity being the lower rate of Kwh as charged per council and in the case of water the lowest rate per KI (Incl VAT).

## Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

### Notes to the Audited Annual Financial Statements

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#### 2. New standards and interpretations

##### 2.1 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 2016 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	01 April 2017	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements
• GRAP 20: Related parties	01 April 2017	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2016	The impact of the amendment is not material.
• GRAP 108: Statutory Receivables	01 April 2016	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2016	The impact of the amendment is not material.
• GRAP 16 (as amended 2015): Investment Property	01 April 2016	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements
• GRAP 17 (as amended 2015): Property, Plant and Equipment	01 April 2016	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements
• GRAP 109: Accounting by Principals and Agents	01 April 2017	The impact of the amendment is not material.

# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

## Notes to the Audited Annual Financial Statements

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

<ul style="list-style-type: none"> <li>• GRAP 21 (as amended 2015): Impairment of non-cash-generating assets</li> </ul>	01 April 2017	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements
<ul style="list-style-type: none"> <li>• GRAP 26 (as amended 2015): Impairment of cash-generating assets</li> </ul>	01 April 2017	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements
<ul style="list-style-type: none"> <li>• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities</li> </ul>	01 April 2018	The impact of the amendment is not material.

### 3. Inventories

	2016	2015
Electrical spares	3 216	1 354
Game	57 000	54 000
Maintenance materials	134 751	174 283
Water	82 486	82 251
Stores, materials and fuels	446 925	547 045
	724 378	858 933

No inventories were written down to net realisable value.

Game is held for recreational purposes in a form of viewing of game at the reserves by the public. These animals are held for the enjoyment of the public and not for resale. It is not the intention of the municipality to trade in wildlife and as such these animals have not been recognised as Biological assets. Game is measured at the lower of cost or current replacement cost.

### 4. Receivables from non-exchange transactions

	2016	2015
Rates	30 292 372	28 549 537
Environmental levies	3 053 555	3 121 230
Deposits	70 500	70 500
Recoverable legal expenses	207 437	207 437
Staff taxes to SARS refundable	281 121	281 121
Recoverable fruitless and wasteful expenditure	119 058	119 058
Housing sundry	215	-
Provision for Impairment - Non exchange receivables	(19 386 324)	(22 847 943)
	14 668 278	9 500 940

The deposits are made up of an amount of R58 000 paid to Eskom for street lighting and R12 500 paid to Kenton on Sea Garage for a petrol deposit

Fruitless and wasteful expenditure comprises of an amount refundable from NG Ngesi, former Municipal Manager, for the acknowledgement of debt made by him for laptops paid for by the municipality but never delivered.

## Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

### Notes to the Audited Annual Financial Statements

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

##### Receivables from non-exchange transactions past due but not impaired

Trade and other receivables which are past due but are not considered to be impaired as at 30 June 2016, R9 820 255 (2015: R4 155 582) were past due but not impaired.

##### Reconciliation of provision for impairment of trade and other receivables

Opening balance	(22 847 943)	(12 099 257)
Reversals /(Contributions) to allowance for impairment	(195 837)	(11 919 661)
Bad Debts written off against allowance	3 657 456	1 170 975
	<u>(19 386 324)</u>	<u>(22 847 943)</u>

None of the financial assets have been renegotiated in the past financial year.

#### 5. Receivables from exchange transactions

<b>Gross balances</b>		
Electricity	13 224 314	11 948 639
Water	20 480 986	19 663 391
Waste water	1 259 604	1 222 814
Sewerage	8 719 896	9 014 741
Refuse	9 984 621	10 311 309
Housing rental	303 162	284 660
Service charges and other	8 953 765	11 855 925
	<u>62 926 348</u>	<u>64 301 479</u>

##### Less: Allowance for impairment Impairment allowance

(41 098 279)	(40 390 150)
--------------	--------------

##### Net balance

Electricity	13 224 314	11 948 639
Water	20 480 986	19 663 391
Waste water	1 259 604	1 222 814
Sewerage	8 719 896	9 014 741
Refuse	9 984 621	10 311 309
Housing rental	303 162	284 660
Service charges and other	8 953 765	11 855 925
Impairment allowance	<u>(41 098 279)</u>	<u>(40 390 150)</u>
	<u>21 828 069</u>	<u>23 911 329</u>

##### Reconciliation of allowance for impairment

Balance at beginning of the year	(40 390 150)	(48 380 696)
Contributions to allowance	(14 861 183)	(4 811 952)
Debt impairment written off against allowance	14 153 054	12 802 498
	<u>(41 098 279)</u>	<u>(40 390 150)</u>

None of the financial assets have been renegotiated in the last year.

##### Consumer debtors past due but not impaired

Consumer debtors past due but are not considered to be impaired as at 30 June 2016, R13 794 623 (2015: R 14 380 932) were past due but not impaired.

# Ndlambe Local Municipality

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### 5. Receivables from exchange transactions (continued)

#### Consumer debtors impairment process

In estimating the provision for debt impairment a means test was performed. The test entailed plotting each debtor's outstanding amount (including their payment history over the past financial year) and physical address on a GIS system. The following type of debtors were eliminated from the calculation:

- Indigents - these were impaired in full
- All government related debt - these should all be recoverable
- Debtors paying within 30 days - these were not considered to be doubtful
- Debtors settling their accounts monthly, although late - these were not considered to be doubtful
- Debtors with properties in affluent suburbs - these debtors are able to settle their accounts and were not considered to be doubtful

The outstanding amounts after the elimination of the above were considered to be impaired and were included in the provision for bad debt impairment.

# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

## Notes to the Audited Annual Financial Statements

Figures in South African Rand	2016	2015
<b>6. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	5 211	5 111
Bank balances	7 223 029	10 196 893
Short-term deposits	24 127 326	18 518 869
	<b>31 355 566</b>	<b>28 720 873</b>

### Cession & Guarantees over Cash and cash equivalents

Total financial assets ceded to DBSA	18	3 050 600	3 050 600
There is a cession recorded against this account (FNB-71078484865) to this value. Refer to note regarding DBSA loans.			
FNB Guarantee		45 622	45 622
The municipality has a guarantee with FNB in favour of the Department of Mineral and Energy Affairs.			
Eskom Guarantee		1 024 929	1 024 929
The municipality has a guarantee with Eskom in favour of the Department of Minerals and Energy Affairs.			

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
FIRST NATIONAL BANK - General Account - Current	3 136 559	3 993 015	6 496 669	3 600 787	8 363 961	4 597 511
FIRST NATIONAL BANK - Housing Account - Current	3 321 395	1 152 054	5 153 010	3 321 395	1 606 071	1 152 188
FIRST NATIONAL BANK - Revolving Account - Current	300 847	226 861	178 760	300 847	226 861	178 760
FIRST NATIONAL BANK CRR Call Acc	5 463 843	3 450 668	1 928 284	5 463 843	3 450 068	1 928 284
FIRST NATIONAL BANK Fixed Deposit Acc (DBSA)	3 124 438	3 124 438	5 909 686	3 124 438	3 124 438	5 909 686
FIRST NATIONAL BANK Call Account (Eskom)	3 139 594	3 139 594	-	3 139 594	3 139 594	-
STANDARD BANK Notice Account	153 685	145 361	138 465	153 685	145 361	138 465
STANDARD BANK Call Account (004)	1 290	-	-	1 290	-	-
STANDARD BANK Call Account (003)	28 332	-	-	28 790	-	-
STANDARD BANK Call Account (006)	1 140 011	-	-	1 140 011	-	-
STANDARD BANK Call Account (007)	675 000	-	-	675 000	-	-
INVESTEC BANK Internal Funds (502) Call Acc	4 136 047	1 950 924	90 251	4 136 047	1 950 924	90 251
INVESTEC BANK FMG (503) Call Account	345	101 924	-	-	101 924	-
INVESTEC BANK Essential oils (504) Call Acc	329 260	319 056	695 969	329 260	319 056	695 969
INVESTEC BANK Vuna Awards (505) Call Acc	2 840	2 840	9 469	2 840	2 840	9 469
INVESTEC BANK Chicory (506) Call Acc	895 564	1 194 637	1 267 250	895 564	1 194 637	1 367 250
INVESTEC BANK MSIG (507) Call Acc	-	706	414 700	-	706	414 700



## Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

### Notes to the Audited Annual Financial Statements

Figures in South African Rand

			2016		2015	
<b>6. Cash and cash equivalents (continued)</b>						
INVESTEC BANK		3 133	322 629		3 133	322 629
DME (509) Call Acc						
INVESTEC BANK	13 818	18 036	18 037	13 818	18 064	18 064
IDP Process (510) Call Acc						
INVESTEC BANK	3 735 375	3 272 562	2 495 678	3 735 375	3 272 562	2 495 678
EC Sport (511) Call Acc						
INVESTEC BANK	22 364	16 771	399 210	22 364	16 771	399 210
LG SETA (512) Call Acc						
INVESTEC BANK		3 387	300 622		3 387	300 622
Fire Officer (513) Call Acc						
INVESTEC BANK	8 355	44 664	68 476	8 355	44 664	68 476
EPWP (514) Call Acc						
INVESTEC BANK	528	4 730	45 144	528	4 730	45 144
LED Section Ass (515) Call Acc						
INVESTEC BANK	824 243	1 209 299	842 481	824 243	1 209 299	842 481
MIG Sewer (517) Call Acc						
INVESTEC BANK	17 733	12 473	8 509	17 733	12 473	8 509
MIG Sport Field (518) Call Acc						
INVESTEC BANK	-	-	15 309	-	-	15 309
IDP Support (519) Call Acc						
INVESTEC BANK	-	-	208 542	-	-	208 542
South Seas (520) Call Acc						
INVESTEC BANK	192	192	7 062	192	192	7 062
Water Cons Audit (521) Call Acc						
INVESTEC BANK	6 640	4 381	1 195	6 640	4 381	1 195
PMU (522) Call Acc						
INVESTEC BANK	188 464	200 082	-	188 464	200 082	-
Prep Water Meter (523) Call Acc						
INVESTEC BANK	52 082	131 608	-	52 082	131 608	-
LED Initiative (524) Call Acc						
INVESTEC BANK	167 168	167 401	-	167 168	167 401	-
Greenest Town (525) Call Acc						
<b>Total</b>	<b>30 886 012</b>	<b>23 890 797</b>	<b>27 015 407</b>	<b>31 350 353</b>	<b>28 715 188</b>	<b>21 215 454</b>

#### 7. Operating lease asset & liability

Current assets	354 437	354 822
Current liabilities	(55 134)	(23 464)
	<b>299 303</b>	<b>331 358</b>

Operating lease liabilities result from operating leases where the municipality is the lessee and have straight lined the rental expenditure over the period of the lease in accordance with GRAP 13.

Operating lease assets result from operating leases where the municipality is the lessor and have straight lined the rental income over the period of the lease in accordance with GRAP 13. Refer to note 38 for disclosure in terms of GRAP13 future minimum cashflows.

## Ndlambe Local Municipality

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#### 8. Investment property

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	157 280 000	-	157 280 000	157 280 000	-	157 280 000
Buildings	34 247 903	(2 063 411)	32 184 492	34 247 903	(886 952)	33 360 951
<b>Total</b>	<b>191 527 903</b>	<b>(2 063 411)</b>	<b>189 464 492</b>	<b>191 527 903</b>	<b>(886 952)</b>	<b>190 640 951</b>

#### Reconciliation of investment property - 2016

	Opening balance	Depreciation	Total
Land	157 280 000	-	157 280 000
Buildings	33 360 951	(1 176 459)	32 184 492
	<b>190 640 951</b>	<b>(1 176 459)</b>	<b>189 464 492</b>

#### Reconciliation of investment property - 2015

	Opening balance	Additions	Depreciation	Total
Land	157 280 000	-	-	157 280 000
Buildings	1 189 319	32 706 302	(534 670)	33 360 951
	<b>158 469 319</b>	<b>32 706 302</b>	<b>(534 670)</b>	<b>190 640 951</b>

#### Pledged as security

No investment property is pledged as security.

Note that the 2014/15 additions figure represents assets donated to the municipality amounting to R32 706 302 and thus is not reflected as a cash outflow on the Cash Flow Statement.

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.

#### Rental revenue received on investment properties

Amounts recognised in surplus and deficit for the year.

Rental revenue from investment property	54 596	49 270
Direct operating expenses from non-rental generating property		49 388

# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

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### 9. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	82 260 691	-	82 260 691	82 260 691	-	82 260 691
Buildings	104 282 992	(30 041 112)	74 241 880	106 389 287	(27 948 373)	78 440 914
Plant and machinery	9 671 019	(5 256 690)	4 414 329	9 366 749	(4 118 778)	5 247 971
Motor vehicles	28 938 998	(20 345 383)	8 593 615	28 070 802	(18 285 083)	9 785 719
Office equipment	6 904 474	(4 959 430)	1 945 044	6 835 453	(4 487 058)	2 348 395
Work in progress	46 882 537	-	46 882 537	34 536 339	-	34 536 339
Wastewater network	159 350 845	(45 109 672)	114 241 173	148 747 262	(40 601 846)	108 145 416
Water network	159 749 290	(115 027 764)	44 721 526	159 385 259	(106 320 566)	53 064 693
Roads	402 381 902	(249 794 235)	152 587 667	396 580 691	(239 387 172)	157 193 519
IT equipment	4 332 333	(3 128 454)	1 203 879	4 229 978	(2 665 569)	1 564 410
Electricity network	138 550 210	(72 051 249)	66 498 961	138 550 210	(68 038 528)	70 511 682
<b>Total</b>	<b>1 143 305 291</b>	<b>(545 713 989)</b>	<b>597 591 302</b>	<b>1 114 952 722</b>	<b>(511 852 973)</b>	<b>603 099 749</b>

## Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

### Notes to the Audited Annual Financial Statements

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

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

	Opening balance	Additions	Disposals	WIP Transfer In/(Out)	Depreciation	Total
Land	82 260 691	-	-	-	-	82 260 691
Buildings	78 440 914	-	(1 344 973)	207 599	(3 061 660)	74 241 880
Plant and machinery	5 247 971	304 270	-	-	(1 137 912)	4 414 329
Motor vehicles	9 785 719	868 196	-	-	(2 060 300)	8 593 615
Office equipment	2 348 395	75 233	(673)	-	(477 911)	1 945 044
IT equipment	1 564 410	147 538	(13 308)	-	(494 761)	1 203 879
Electricity network	70 511 682	-	-	-	(4 012 721)	66 498 961
Work in progress	34 536 339	27 993 532	-	(15 647 334)	-	46 882 537
Roads	157 193 519	1 088 903	-	4 712 308	(10 407 063)	152 587 667
Wastewater network	108 145 416	-	-	10 603 583	(4 507 826)	114 241 173
Water network	53 064 693	240 187	-	123 844	(8 707 198)	44 721 526
	<b>603 099 749</b>	<b>30 717 859</b>	<b>(1 358 954)</b>	<b>-</b>	<b>(34 867 352)</b>	<b>597 591 302</b>

# Ndlambe Local Municipality

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

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

	Opening balance	Additions	Disposals	WIP Transferred In/(Out)	Depreciation	Impairment loss	Total
Land	82 260 691	-	-	-	-	-	82 260 691
Buildings	67 938 375	3 992 139	-	9 046 940	(2 536 540)	-	78 440 914
Plant and machinery	5 485 334	847 556	(14 667)	-	(1 070 252)	-	5 247 971
Motor vehicles	10 010 466	1 790 387	(1 574)	-	(2 013 560)	-	9 785 719
Office equipment	1 681 503	1 075 196	(8 870)	-	(399 434)	-	2 348 395
IT equipment	1 979 455	181 967	(84 955)	-	(512 057)	-	1 564 410
Electricity network	40 849 694	33 333	-	32 963 035	(3 334 380)	-	70 511 682
Work in progress	75 730 812	18 608 286	-	(59 802 759)	-	-	34 536 339
Roads	159 041 438	993 690	(345 599)	8 599 874	(11 095 884)	-	157 193 519
Wastewater network	100 968 704	2 320 109	(53 568)	8 739 948	(3 829 777)	-	108 145 416
Water network	61 646 874	896 380	-	452 962	(9 736 221)	(195 312)	53 064 693
<b>Pledged as security</b>	<b>607 593 346</b>	<b>30 739 053</b>	<b>(509 233)</b>	<b>-</b>	<b>(34 528 105)</b>	<b>(195 312)</b>	<b>603 099 749</b>

No assets have been pledged as security.

Note that the 2014/15 additions figure for Property, plant and Equipment contains moveable assets valued at R503 090 donated amounting to the municipality and as thus is not reflected as a cash outflow on the Cash Flow Statement.

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.

## Ndlambe Local Municipality

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#### 10. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	785 853	(485 117)	300 736	780 605	(341 314)	439 291

#### Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software	439 291	5 248	(143 803)	300 736

#### Reconciliation of intangible assets - 2015

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	377 572	209 898	(1 562)	(146 617)	439 291

#### 11. Heritage assets

	2016			2015		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Conservation areas	16	-	16	16	-	16

#### Reconciliation of heritage assets 2016

	Opening balance	Total
Conservation areas	16	16
	16	16

#### Reconciliation of heritage assets 2015

	Opening balance	Total
Conservation areas	16	16

#### Age and/or condition of heritage assets

The following information relating to age and/or condition of heritage assets is provided for better appreciation:

The heritage assets disclose below are registered with the National Heritage Council as being historically significant.

# Ndlambe Local Municipality

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### 11. Heritage assets (continued)

#### Restrictions on heritage assets

The heritage assets, disclose below have restrictions in terms of their disposal due to the fact that they are registered with the National Heritage Council and therefore cannot and will not be disposed of in the course of operations of the municipality.

Carrying value of heritage assets with restrictions:

Conservation Areas	16	16
Disposal restriction due to registration at National Heritage council		

### 12. Other financial assets

#### Designated at fair value

##### Listed shares

Old Mutual shares are held at fair value determined as the quoted market value.	141 525	144 979
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#### Total other financial assets

	141 525	144 979
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#### Non-current assets

##### Designated at fair value

	141 525	144 979
--	---------	---------

### 13. Financial instruments disclosure

#### Categories of financial instruments

2016

#### Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	21 828 069	21 828 069
Other receivables from non-exchange transactions	-	14 668 278	14 668 278
Cash and cash equivalents	-	31 355 566	31 355 566
Other financial assets	141 525	-	141 525
	141 525	67 851 913	67 993 438

#### Financial liabilities

	At amortised cost	Total
Payables	45 215 744	45 215 744
Financial Liabilities - DBSA	15 881 390	15 881 390
	61 097 134	61 097 134

2015

#### Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	23 911 329	23 911 329
Other receivables from non-exchange transactions	-	9 500 940	9 500 940
Cash and cash equivalents	-	28 720 873	28 720 873
Other financial assets	144 979	-	144 979
	144 979	62 133 142	62 278 121

# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

## Notes to the Audited Annual Financial Statements

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### Financial instruments disclosure (continued)

#### Financial liabilities

	At amortised cost	Total
Payables	49 432 428	49 432 428
Financial Liabilities - DBSA	19 774 751	19 774 751
	<u>69 207 179</u>	<u>69 207 179</u>

#### 14. Consumer deposits

Electricity	1 463 611	1 465 899
Water	285 690	234 834
	<u>1 749 301</u>	<u>1 700 733</u>

#### 15. Payables

Trade payables	10 632 371	19 511 184
Payments received in advance	3 122 083	2 966 963
Accrued leave pay	4 689 009	4 273 091
13th cheque accrual	2 499 070	2 361 487
Accrued expense	10 238 662	6 375 257
Deposits received	793 382	794 615
Other payables	26 145	21 411
Unidentified direct deposits	1 240 575	872 579
Retention monies	1 458 027	1 493 370
SALA Pension Fund	2 051 851	3 005 133
Human Settlements	3 321 395	3 225 823
SAMWU Pension Fund	4 545 561	4 080 638
Overtime Accrual	597 613	450 877
	<u>45 215 744</u>	<u>49 432 428</u>



# Ndlambe Local Municipality

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	2016	2015
<b>16. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
IDC Chicory	854 454	1 175 026
DWAF: ACIP	2 335	2 335
SBDM: Drought Relief grants	34 222	34 222
MIG	-	4 394 669
MSIG	41	-
LED: Essential Oils	327 511	348 697
LED: Section Assistant	528	528
LED: Vuna Awards	2 839	2 839
EC Sports/Arts and culture	3 435 256	2 950 743
LG SETA	19 967	14 192
SBDM: IDP Dev Support	2 923	18 029
DME	506	506
EPWP: Public Works	7	-
LED: Initiative	45 352	127 058
EC: Eco: 2nd Place Greenest Town	-	166 280
SBDM: Drinking Water Safety Plan	14 641	14 641
SBDM: T&C Brickworks Project	10 485	10 485
DWAF: Water and Sewer Audit	192	192
Ndlambe Waste Management	1 062 618	-
LED KaapRiver	675 000	-
	<b>6 488 867</b>	<b>9 260 442</b>
The liability relates to unfulfilled conditions and other contingencies attached to government assistance that has been recognised. Expenditure on grants was made in terms of the relevant conditions and no grant funding was withheld during the year		
See note 23 for reconciliation of grants from National/Provincial Government.		
These amounts are invested in a ring-fenced investment until utilised.		
<b>17. VAT payable</b>		
VAT refunds payable	5 608 242	4 648 517
<b>18. Financial liabilities - DBSA</b>		
<b>At amortised cost</b>		
DBSA Loan 102198	-	1 681 127
10 years @ 10.89%		
DBSA Loan 101161/2	5 685 363	6 015 077
20 years @12.34%		
DBSA Loan 13478/101	3 253 044	3 183 327
20 years @17%		
DBSA Loan 101855	-	1 322 598
10 years @ 9.68%		
DBSA Loan 102557/1	6 942 983	7 572 622
15 years @ 8.81%		
	<b>15 881 390</b>	<b>19 774 751</b>
<b>Total other financial liabilities</b>	<b>15 881 390</b>	<b>19 774 751</b>

# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

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### 18. Financial liabilities - DBSA (continued)

#### Non-current liabilities

At amortised cost

13 891 090

15 404 512

#### Current liabilities

At amortised cost

1 990 300

4 370 239

### 19. Employee benefit obligations

#### Defined benefit plan

The plan is a final salary pension / flat plan or a post employment medical benefit plan.

#### Post retirement medical aid plan

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

#### Carrying value

Present value of the defined benefit obligation-wholly unfunded

(49 365 000)

(47 694 000)

Benefits paid during the year

1 860 551

1 494 000

Current service costs

(2 986 000)

(2 730 000)

Interest Costs

(4 586 000)

(4 321 000)

Actuarial (Loss)/Gain

(5 772 392)

3 886 000

**Present value of the defined benefit obligation-wholly unfunded**

**(60 848 841)**

**(49 365 000)**

Non-current liabilities

(59 033 541)

(47 775 000)

Current liabilities

(1 815 300)

(1 590 000)

**(60 848 841)**

**(49 365 000)**

The municipality's based estimate of the contributions expected to be paid to the plan after reporting date is 2016: R1 815 300.  
(2015: R1 590 000)

#### Net expense recognised in the statement of financial performance - Employee costs

Current service cost

2 986 000

2 730 000

Interest cost

4 586 000

4 321 000

Actuarial (gains) / losses

17 659 523

(3 886 000)

Benefits paid

(1 860 551)

(1 494 000)

**23 370 972**

**1 671 000**

#### Key assumptions used

Assumptions used at the reporting date:

Discount rates used

9.09%

Yield Curve

Expected rate of return on assets (Net discount rate)

0.82%

Difference

between

Nominal and

Yield Curve

CPI + 1%

Expected rate of return on reimbursement rights

8.19% or

CPI+1.5%

Actual return on reimbursement rights

0.82%

Yield Curve

Based

Average retirement age

63

63

## Ndlambe Local Municipality

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### Notes to the Audited Annual Financial Statements

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#### 19. Employee benefit obligations (continued)

##### Other assumptions

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

	One percentage point increase	One percentage point decrease
Effect on defined benefit obligation - movement in health care inflation	71 063 000	52 588 000
Effect on Interest costs	5 397 000	3 933 000
Effect on Service costs	3 736 000	2 408 000

Amounts for the current and previous four years are as follows:

	2016 R	2015 R	2014 R	2013 R	2012 R
Defined benefit obligation	(60 848 841)	(49 365 000)	(47 694 000)	(50 794 000)	(49 642 001)

## Ndlambe Local Municipality

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#### 20. Provisions

##### Reconciliation of provisions - 2016

	Opening Balance	Fair Value adjustment	Current service costs	Interest costs/Unwindirg of interest	Benefits paid	Actuarial gain	Total
Environmental rehabilitation	18 621 727	5 515 605	-	1 722 510	-	-	25 859 842
Long service awards	5 529 000	-	692 000	508 000	(591 000)	(592 709)	5 545 291
	<b>24 150 727</b>	<b>5 515 605</b>	<b>692 000</b>	<b>2 230 510</b>	<b>(591 000)</b>	<b>(592 709)</b>	<b>31 405 133</b>

##### Reconciliation of provisions - 2015

	Opening Balance	Fair Value adjustment	Current service costs	Interest costs/Unwindirg of interest	Benefits paid	Actuarial gain	Total
Environmental rehabilitation	21 426 678	(4 733 352)	-	1 928 401	-	-	18 621 727
Long service awards	5 503 000	-	683 000	441 000	(230 312)	(867 686)	5 529 000
	<b>26 929 678</b>	<b>(4 733 352)</b>	<b>683 000</b>	<b>2 369 401</b>	<b>(230 312)</b>	<b>(867 686)</b>	<b>24 150 727</b>

#### Non-current liabilities

- Environmental rehabilitation
- Long service awards

	20 315 910	22 454 111
	15 621 708	17 116 914
	4 694 202	5 337 197

#### Current liabilities

- Environmental rehabilitation
- Long service awards

	11 089 223	1 696 616
	10 238 134	1 504 813
	851 089	191 803

	31 405 133	24 150 727
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# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

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### 20. Provisions (continued)

#### Environmental rehabilitation provision

Ndlambe Municipality operates 10 landfill sites which by law will have to be permitted and closed in accordance with the "Minimum Requirements" and in accordance with the Environment Conservation Act. (Act 73 of 1989). Closure will involve, inter alia, the application of final cover, topsoiling, vegetating, drainage maintenance and leachate management.

Closure of the landfill sites are dependant on a number of external factors, such as amongst others, waste minimisation and population changes. During the year there has been a court order to affect the closure of the Bushmans landfill site, thereby directly affecting the provision estimation calculation as the closure is now projected within the timeframes set by the court ruling which is less than one year.

#### Long service awards

Ndlambe offers long service bonus awards to active employees, the amount of which is dependent on the annual salary of the employee. Councillors are not eligible for this benefit and were not taken into account. The award comprises of percentage of their annual salary as well as additional leave days to employees at the end of the specified time period.

### 21. Property rates

#### Rates received

Property rates	76 545 466	68 004 287
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#### Valuations

All	12 641 310 513	12 714 132 910
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Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on an monthly basis.

### 22. Service charges

Sale of electricity	54 953 352	49 773 583
Sale of water	26 820 467	25 842 547
Sewerage and sanitation charges	7 202 618	6 990 137
Refuse removal	12 350 437	11 588 461
Other service charges	37 897	149 778
	<u>101 364 771</u>	<u>94 344 506</u>

## Ndlambe Local Municipality

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### Notes to the Audited Annual Financial Statements

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#### 23. Government grants and subsidies

##### Revenue - Conditions met on operating portion of grant expenditure

Unconditional Equitable Share Grant	69 490 000	57 262 999
Unconditional: Equitable share: Cllrs & Ward Contributions	3 612 000	3 447 000
Financial Management Grant	1 442 327	1 447 622
Municipal Systems Improvement Grant (MSIG)	929 959	934 000
LGSETA Grants	295 384	351 825
Municipal Infrastructure Grant	1 314 466	1 077 871
Health subsidies	1 376 252	1 303 820
LED Grants	423 464	1 635 644
Library Grant (DESRAC)	1 871 254	1 252 508
Accelerated Community Infrastructure Programme	3 188 262	214 024
EC Econ Greenest Town	44 885	-
SBM Unconditional Grant Revenue	40 000	115 550
	84 028 253	69 042 863

##### Revenue - Conditions met on capital portion of grants

Financial Management Grant (Capital)	357 673	352 403
Sarah Baartman District Mun (SBDM) Grants (Capital)	15 106	748 486
EC Economic Ndlambe Wastewater	74 382	-
Municipal Infrastructure Grant (Capital)	29 567 198	25 073 014
Intergrated National Elect Grant (INEG) (Capital)	-	1 038 000
Library Grant (DESRAC) (Capital)	381 232	556 085
Accelerated Community Infrastructure Prog (Capital)	1 058 452	7 564 622
Expanded Public Works Prog Grant (EPWP) (Capital)	999 993	998 792
EC Econ Greenest Town	121 395	133 720
	32 575 431	36 465 122
	116 603 684	105 507 985

#### Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	39 313 863	43 689 587
Unconditional grants received	73 102 000	56 929 809
	112 415 863	100 619 396

#### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. In the current financial year, an amount of R4,2 million was withheld from Equitable Share, this was due to a misclassification error made in the prior period published Annual Financial Statements. This classification error has been corrected in the 2014/15 comparative figures as disclosed in note 45, as the grant was fully utilised as at 30 June 2014.

#### IDC Chicory

Balance unspent at beginning of year	1 175 026	1 260 627
Current year receipts	-	-
Conditions met - transferred to revenue	(320 572)	(85 601)
	854 454	1 175 026

Conditions still to be met - remain liabilities (see note 15). Funding conditions were for the production of chicory, the funding is used for that as we do soil preparations for the upcoming chicory planting season that will be in October.

## Ndlambe Local Municipality

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### Notes to the Audited Annual Financial Statements

Figures in South African Rand	2016	2015
<b>23. Government grants and subsidies (continued)</b>		
<b>DWA (ACIP)</b>		
Balance unspent at beginning of year	2 335	2 334
Current-year receipts	4 246 714	7 778 646
Conditions met - transferred to revenue	(4 246 714)	(7 778 646)
	<u>2 335</u>	<u>2 335</u>
Conditions still to be met - remain liabilities (see note 16)		
<b>SBDM: Drought Relief grants</b>		
Balance unspent at beginning of year	34 222	34 222
Current-year receipts	-	-
	<u>34 222</u>	<u>34 222</u>
Conditions still to be met - remain liabilities (see note 16)		
<b>MIG</b>		
Balance unspent at beginning of year	4 394 669	6
Current-year receipts	26 487 000	30 799 000
Conditions met - transferred to revenue	(29 839 270)	(25 175 689)
Retention	(1 042 399)	(1 228 648)
	<u>-</u>	<u>4 394 669</u>
Conditions still to be met - remain liabilities (see note 16)		
<b>MSIG</b>		
Current-year receipts	930 000	934 000
Conditions met - transferred to revenue	(929 959)	(934 000)
	<u>41</u>	<u>-</u>
Conditions on MSIG grant are met.		
<b>LED: Essential Oils</b>		
Balance unspent at beginning of year	348 697	727 993
Current-year receipts	-	-
Conditions met - transferred to revenue	(21 186)	(379 296)
	<u>327 511</u>	<u>348 697</u>
Conditions still to be met - remain liabilities (see note 16)		

Funding conditions were to plant essential Oils with special focus on Rose Geranium, Chamomile and Lavender, however this proved to be un-viable and change of scope was requested from the funder ( DEDEA) for a more economic viable activity, chicory was identified and as in the same way with IDC Chicory, funding will be used in soil preparations for the upcoming planting season of chicory in October.

# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

## Notes to the Audited Annual Financial Statements

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

#### LED: Section Assistant

Balance unspent at beginning of year	528	30 377
Current-year receipts	-	112 000
Conditions met - transferred to revenue	-	(141 849)
	<u>528</u>	<u>528</u>

Conditions still to be met - remain liabilities (see note 16)

#### LED: Vuna Awards

Balance unspent at beginning of year	2 839	9 469
Current-year receipts	-	-
Conditions met - transferred to revenue	-	(6 630)
	<u>2 839</u>	<u>2 839</u>

Conditions still to be met - remain liabilities (see note 16)

The conditions were that funds are spent on SMME / Enterprise development targeting women business enterprises. The remain balance will be spent on sourcing fabric for the sewing pro

#### EC Sports/Arts and Culture

Balance unspent at beginning of year	2 950 743	2 022 336
Current-year receipts	2 737 000	2 737 000
Conditions met - transferred to revenue	(2 252 487)	(1 808 593)
	<u>3 435 256</u>	<u>2 950 743</u>

Conditions still to be met - remain liabilities (see note 16)

#### LG SETA

Balance unspent at beginning of year	14 192	328 409
Current-year receipts	301 149	37 608
Conditions met - transferred to revenue	(295 384)	(351 825)
	<u>19 957</u>	<u>14 192</u>

Conditions still to be met - remain liabilities (see note 16)

#### SBDM: Fire Officers grant

Balance unspent at beginning of year	-	249 227
Current-year receipts	-	375 000
Conditions met - transferred to revenue	-	(624 227)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 16)

#### SBDM: IDP Dev Support

Balance unspent at beginning of year	18 029	18 029
Conditions met - transferred to revenue	(15 106)	-
	<u>2 923</u>	<u>18 029</u>



# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

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

Conditions still to be met - remain liabilities (see note 16)

#### DME

Balance unspent at beginning of year	506	38 506
Current-year receipts	-	1 000 000
Conditions met - transferred to revenue	-	(1 038 000)
	<u>506</u>	<u>506</u>

Conditions still to be met - remain liabilities (see note 16)

#### EPWP: Public Works

Balance unspent at beginning of year	-	(1 209)
Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(999 993)	(998 791)
	<u>7</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 16).

#### FMG

Balance unspent at beginning of year	-	25
Current-year receipts	1 800 000	1 800 000
Conditions met - transferred to revenue	(1 800 000)	(1 800 025)
	<u>-</u>	<u>-</u>

The FMG grant conditions are met

#### LED: Initiative

Balance unspent at beginning of year	127 058	-
Current-year receipts	-	350 000
Conditions met - transferred to revenue	(81 706)	(222 942)
	<u>45 352</u>	<u>127 058</u>

Conditions still to be met - remain liabilities (see note 16).

Funding was for economic initiatives that seek to improve the livelihood and economic material of the local people. The funding remaining will be used to used in line with this condition, considering that it is such initiatives that create employment in the area.

#### EC: Eco 2nd Place Greenest Town

Balance unspent at beginning of year	166 280	-
Current-year receipts	-	300 000
Conditions met - transferred to revenue	(166 280)	(133 720)
	<u>-</u>	<u>166 280</u>

Conditions still to be met - remain liabilities (see note 16).

# Ndlambe Local Municipality

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

#### SBDM: Drinking Water Safety Plan

Balance unspent at beginning of year	14 641	14 641
Current-year receipts	-	-
	<u>14 641</u>	<u>14 641</u>

Conditions still to be met - remain liabilities (see note 16).

#### SBDM: T&C Brickworks Project

Balance unspent at beginning of year	10 485	39 487
Conditions met - transferred to revenue	-	(29 002)
	<u>10 485</u>	<u>10 485</u>

Conditions still to be met - remain liabilities (see note 16)

Bricks Project/ T&C Bricks, the funding was for the sourcing of the brick machinery which was acquired and the balance was for inputs like crusher dust, sand and cement. The balance is being used for this purpose.

#### DWAF: Water and Sewer Audit

Balance unspent at beginning of year	192	1 850
Conditions met - transferred to revenue	-	(1 658)
	<u>192</u>	<u>192</u>

Conditions still to be met - remain liabilities (see note 16).

#### SBDM: South Seas Poultry Project

Balance unspent at beginning of year	-	146 180
Conditions met - transferred to revenue	-	(146 180)
	<u>-</u>	<u>-</u>

Conditions on South Seas grant are met.

# Ndlambe Local Municipality

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

#### Ndlambe Waste Management

Current-year receipts	1 137 000	-
Conditions met - transferred to revenue	(74 382)	-
	<u>1 062 618</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 16).

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

#### LED KapRiver

Current-year receipts	<u>675 000</u>	<u>-</u>
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Conditions still to be met - remain liabilities (see note 16).

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

#### Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (2014/2015), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

### 24. Other Income

Admission fees	20 765	19 629
Building plan fees	1 064 156	1 036 886
Camping fees	209 827	157 996
Encroachments	2 522	2 485
Event application fees	13 388	13 673
Sundry fees	359	20 220
Sale of game	-	450 541
Insurance claim refund	564 027	248 869
Refuse bags sold	16 859	19 503
River usage	423 689	182 233
Sundry income	569 545	380 286
Subdivisions	13 266	51 870
Town planning income	152 658	171 030
Valuation rolls	82 988	51 865
	<u>3 134 049</u>	<u>2 807 086</u>

### 25. Interest Received

#### Interest revenue

Bank	2 068 403	1 630 826
Interest charged on trade and other receivables	6 502 864	5 710 868
	<u>8 571 267</u>	<u>7 341 694</u>

# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

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### 26. Revenue

Service charges	101 364 771	94 344 506
Property rates	76 545 466	68 004 287
Government grants & subsidies	116 603 684	105 507 985
Rental of facilities and equipment	1 267 642	1 213 958
Burial services	215 266	179 577
Licences and permits	3 599 730	3 957 916
Rental income	2 464	4 038
Other income	3 134 049	2 807 086
Interest received - investment	8 571 267	7 341 694
Public contributions and donations	-	33 926 611
Fines, Penalties and Forfeits	455 795	606 110
	<b>311 760 134</b>	<b>317 893 768</b>

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

Service charges	101 364 771	94 344 506
Burial services	215 266	179 577
Rental of facilities and equipment	1 267 642	1 213 958
Licences and permits	3 599 730	3 957 916
Rental income	2 464	4 038
Other income	3 134 049	2 807 086
Interest received - investment	8 571 267	7 341 694
	<b>118 155 189</b>	<b>109 848 775</b>

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

Taxation revenue		
Property rates	76 545 466	68 004 287
Transfer revenue		
Government grants & subsidies	116 603 684	105 507 985
Public contributions and donations	-	33 926 611
Fines, Penalties and Forfeits	455 795	606 110
	<b>193 604 945</b>	<b>208 044 993</b>

## Ndlambe Local Municipality

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### Notes to the Audited Annual Financial Statements

Figures in South African Rand	2016	2015
<b>27. Employee related costs</b>		
Basic	69 086 526	63 354 366
Bonus	137 583	311 336
Allowances	3 181 829	3 102 437
Post-employment benefits	24 287 212	13 673 206
Medical aid - company contributions	7 784 420	6 761 734
UIF	679 205	636 132
WCA	403 962	292 926
SDL	884 013	791 859
Leave pay provision charge	415 918	17 660
Overtime payments	9 637 805	7 380 691
Car allowance	2 760 908	2 692 424
Housing benefits and allowances	990 394	360 194
Group insurance	403 129	321 827
Industrial levy	43 435	39 899
Casuals	1 354 826	925 294
	<b>122 051 165</b>	<b>100 861 985</b>
<b>Remuneration of Municipal Manager</b>		
Annual Remuneration	957 274	883 767
Car Allowance	175 986	175 986
Performance Bonuses	49 917	66 645
Telephone allowance	15 535	15 535
Other (Allowance, UIF, Medical, Pension, etc)	203 312	189 972
13th Cheque	72 833	67 399
Leave pay	78 645	71 259
	<b>1 653 502</b>	<b>1 470 563</b>
<b>Remuneration of Chief Finance Officer</b>		
Annual Remuneration	732 979	672 391
Car Allowance	180 861	180 861
Performance Bonuses	41 583	11 104
Telephone allowance	21 304	21 304
Other (Allowance, UIF, Medical, Pension, etc)	255 285	227 776
13th Cheque	55 399	50 775
Leave pay	56 518	50 997
	<b>1 343 929</b>	<b>1 215 208</b>

## Ndlambe Local Municipality

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#### 27. Employee related costs (continued)

##### Remuneration of the Director: Infrastructural Development

Annual Remuneration	552 026	369 218
Car Allowance	240 000	164 000
Performance Bonuses	37 591	20 000
Telephone allowance	36 000	27 000
Other (Allowance, UIF, Medical, Pension, etc)	203 478	168 767
13th Cheque	40 823	40 156
Leave pay	28 326	18 360
	<u>1 138 244</u>	<u>807 501</u>

##### Remuneration of the Director: Corporate Services

Annual Remuneration	684 984	630 331
Car Allowance	144 000	144 000
Performance Bonuses	37 501	20 027
Telephone allowance	12 000	12 000
Other (Allowance, UIF, Medical, Pension, etc)	234 606	166 625
13th Cheque	51 912	47 837
Leave pay	69 143	46 515
	<u>1 234 146</u>	<u>1 067 335</u>

##### Remuneration of the Director: Community and Protection Services

Annual Remuneration	632 062	578 204
Car Allowance	180 000	180 000
Performance Bonuses	37 438	29 990
Telephone allowance	24 000	24 000
Other (Allowance, UIF, Medical, Pension, etc)	185 526	173 439
13th Cheque	47 540	43 531
Leave pay	63 618	44 544
	<u>1 170 184</u>	<u>1 073 708</u>

# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

## Notes to the Audited Annual Financial Statements

Figures in South African Rand	2016	2015
<b>28. Remuneration of councillors</b>		
Councillors (refer to table below)	5 959 606	5 608 728
<b>Councillors</b>		
Executive Mayor	799 744	760 179
Speaker	355 931	336 946
Executive Member: S.B Funde	334 086	316 158
Executive Member: M. Mateti	334 083	316 158
Executive Member: L.R Schenk	334 996	317 364
K.C Ncamiso	312 950	295 964
G.G Cannon	249 320	236 375
T.L.E Khoathani	248 656	235 506
Z. Ngxingo	248 656	235 506
N.T Donle	249 320	236 375
J.P Guest	249 320	236 375
T. Mazana	249 320	236 375
J.M Cowley	249 320	236 375
M.J Tarentaal	249 235	236 375
S. Venene	249 320	236 097
N. Xhasa	249 320	236 375
C. Meterlekamp	249 320	236 375
P.P Faxi	249 320	236 157
M.E Msimang	248 659	235 506
K. Daweti	248 730	197 619
	<b>5 959 606</b>	<b>5 610 160</b>
<b>In-kind benefits</b>		
The Mayor is full-time. He is provided with an office and secretarial support at the cost of the Council.		
The Mayor has the use of a separate Council owned vehicle for official duties.		
<b>29. Depreciation and amortisation</b>		
Property, plant and equipment	34 867 352	34 586 362
Investment property	1 176 460	534 670
Intangible assets	143 803	88 360
	<b>36 187 615</b>	<b>35 209 392</b>
<b>30. Finance costs</b>		
Non-current borrowings	2 011 577	2 461 170
<b>31. Debt impairment</b>		
Contribution to debt impairment provision	15 053 182	16 731 643
<b>32. Auditors' remuneration</b>		
Fees	4 508 197	4 297 564

## Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

### Notes to the Audited Annual Financial Statements

Figures in South African Rand	2016	2015
<b>33. Bulk purchases</b>		
Electricity	39 553 866	36 222 137
Water	10 953 785	10 182 984
	<u>50 507 651</u>	<u>46 405 121</u>
<b>34. Grants and subsidies paid</b>		
Other subsidies		
Grants and subsidies paid	830 173	856 424
Grants in Aid	-	8 870
	<u>830 173</u>	<u>865 294</u>



## Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

### Notes to the Audited Annual Financial Statements

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#### 35. General expenses

Administration	-	51 348
Advertising	143 386	176 505
Auditors remuneration	4 508 197	4 297 564
Bank charges	345 092	367 066
Boat decals	7 440	7 018
Bursaries	95 360	79 320
Campaigns	72 840	175 555
Chemicals	1 456 616	1 316 852
Commission paid	3 047 286	419 495
Communication programmes	178 973	9 144
Consulting and professional fees	821 237	884 514
Donations	140 005	134 656
Election expenses	8 800	945
Electricity	8 046 518	7 078 896
Entertainment	72 913	47 918
Environmental levy expense	1 492 205	642 761
Flowers	750	1 134
Fuel and oil	4 553 533	4 638 160
Hiring expenses	704 220	42 986
IT support	46 584	45 338
Insurance	1 758 086	1 864 104
Job creation	1 216 199	1 879 704
LED SMME Support	445 449	744 503
Motor vehicle licensing	331 255	287 922
Other expenses	1 890 928	1 227 285
PMS review process	14 016	99 219
Postage and courier	1 018 950	369 080
Printing and stationery	451 455	970 288
Refuse	34 185	81 787
Ward Committee fees	215 601	-
Security (Guarding of municipal property)	1 738 413	1 077 147
Special Programmes	293 189	175 501
Staff welfare	36 288	42 630
Stock/Fuel loss	16 725	60 783
Subscriptions and membership fees	1 135 281	996 228
Telephone and fax	1 881 606	1 832 807
Tourism development	419 737	436 000
Training	910 068	1 201 345
Transport (Workshop)	58 000	79 983
Transport and freight	16 080	13 366
Travel - local	2 153 269	1 763 818
Uniforms	872 984	862 911
Valuation expenses	447 875	363 738
Water services authority expenditure	270 074	1 178 836
Water testing	250 471	85 785
	<b>43 618 139</b>	<b>38 111 946</b>

#### 36. Fair value adjustments

Other financial assets		
• Old Mutual shares	(3 454)	10 290
Provisions - Landfill rehabilitation		
• FV adjustment to Landfill rehabilitation provision	(7 238 115)	2 804 952
	<b>(7 241 569)</b>	<b>2 815 242</b>

## Ndlambe Local Municipality

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### Notes to the Audited Annual Financial Statements

Figures in South African Rand	2016	2015
<b>37. Cash generated from operations</b>		
(Deficit) surplus	(10 139 674)	34 769 114
<b>Adjustments for:</b>		
Depreciation and amortisation	36 187 615	35 209 392
Loss (gain) on sale of assets and liabilities	1 358 954	501 924
Fair value adjustments	7 241 569	(2 815 242)
Impairment deficit	-	195 312
Debt impairment	15 053 182	16 731 643
Movements in retirement benefit assets and liabilities	11 483 841	1 671 000
Movement in provisions	12 837	36 291
Receipt of assets - Non-exchange	8 & 9	(33 926 611)
<b>Changes in working capital:</b>		
Inventories	134 555	(59 182)
Receivables from non-exchange transactions	(5 363 205)	(10 794 954)
Decrease/(increase) in receivables from exchange transactions	(12 774 056)	(16 791 142)
(Increase)/Decrease in Other receivables from exchange transactions	3 839	(32 016)
Payables	(4 216 684)	10 511 881
(Decrease)/Increase in VAT	959 725	1 482 887
Unspent conditional grants and receipts	(2 771 575)	4 337 931
Consumer deposits	48 568	65 800
(Decrease)/Increase in Lease Liability	31 670	(17 162)
	<b>37 251 161</b>	<b>41 076 866</b>

### 38. Commitments

#### Authorised capital expenditure

##### Approved and contracted

- Property, plant and equipment

1 824 331 29 679 257

##### Authorised by accounting officer, but not yet contracted for

- Property, plant and equipment

- 4 394 669

#### Total capital commitments

Already contracted for but not provided for

1 824 331 29 679 257

Not yet contracted for and authorised by accounting officer

- 4 394 669

**1 824 331 34 073 926**

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

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

##### Minimum lease payments due

- within one year
- in second to fifth year inclusive

653 289 675 533

663 669 1 316 958

**1 316 958 1 992 491**

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. Escalations are applicable on a contract by contract basis. No contingent rent is payable.

## Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

### Notes to the Audited Annual Financial Statements

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#### 38. Commitments (continued)

##### Operating leases - as lessor (income)

##### Minimum lease payments due

- within one year	457 006	420 158
- in second to fifth year inclusive	1 015 222	1 315 258
- later than five years	181 467	338 436
	<u>1 653 695</u>	<u>2 073 852</u>

Certain of the municipality's buildings are held to generate rental income. Lease agreements are non-cancellable and have terms from 3 to 20 years. There are no contingent rents receivable.

#### 39. Contingent liabilities

Est. Late Bethe vs Ndlambe LM- Defamation claim - Legal proceedings have been instituted against the municipality with regards to a defamation claim instituted by the Est Late of Mr. Bethe. The claim against the municipality is for R1 000 000 although the outflow is not considered likely due to the claimant having passed away.

Badenhorst vs Ndlambe LM - A legal claim was instituted against the municipality as the claimant maintains that he is not provided with access to his plot by the municipality. The claim was is to the extent of R800 000 and there is no indication of the timing of the potential outflow.

Ndanza Pty(Ltd) vs Ndlambe LM - The claimant has instituted legal proceedings against the municipality to re-institute tender processes. The financial effect of this cannot be estimated.

Campbell and Shelton vs Ndlambe LM- The claimant has instituted proceedings to suspend all approvals for building development on wetland area in Port Alfred. The financial effect of this cannot be determined.

KOSRA, Bushmans Kariega Estuary Care Management Forum & Natures Landing Homeowners Association vs Ndlambe LM - Legal proceedings have been instituted against the municipality regarding the state of the landfill site at Bushmans and to put measures in place to rectify the state of the landfill. The financial effect of this cannot be estimated as the financial claim has not been made.

ACP Cotterell N.O. & MP Dineen & BM Naude vs Ndlambe LM & Others - Legal proceedings have been instituted against the municipality regarding the encroachment of the landfill site on the nearby farm of the plaintiff. The plaintiff is seeking rectification of the landfill site fence, clearing on the waste spilled on the farmland, alternative relief & costs of application. The financial effect of this cannot yet be determined without full assessment of the site cleanup & uncertainty regarding possible damages in this regard.

Litigation is in the process against the municipality relating to various matters. The total estimated potential liability to the municipality at 30 June 2016 is R1 800 000 (2015: R1 800 000).

#### Contingent assets

Legal proceedings have been ongoing in the last number of years relating to royalties payable to council for the Kowie Quarry. The proceedings however have not yielded any outcome or resulted in any financial inflows to the municipality. As the matter is still sub judice any amount receivable cannot be assessed as being virtually certain and therefore the amount has not been disclosed as a contingent asset.

#### 40. Going concern

The audited 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.

# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

## Notes to the Audited Annual Financial Statements

Figures in South African Rand

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### 41. Unauthorised expenditure

Opening balance	44 929 488	16 435 547
Unauthorised expenditure incurred during the year	27 673 975	28 493 941
	<b>72 603 463</b>	<b>44 929 488</b>

### EXPENDITURE PER VOTE

	2016 Actual	2016 Budget	2016 Variance	2016 Unauthorised
EXECUTIVE AND COUNCIL	49 175 632	35 850 287	13 325 345	13 325 345
MUNICIPAL MANAGER	8 977 232	8 985 059	(7 827)	-
FINANCE BUDGET AND TREASURY	16 451 167	22 632 246	(6 181 079)	-
FINANCE - SUPPLY CHAIN	1 372 046	1 647 023	(274 977)	-
CORPORATE SERVICES	11 085 671	10 004 325	1 081 346	1 081 346
WASTE MANAGEMENT	18 296 084	26 622 033	(8 325 949)	-
COMMUNITY AND SOCIAL SERVICES	32 524 127	37 212 931	(4 688 804)	-
HOUSING	7 585 252	8 999 453	(1 414 201)	-
ELECTRICITY	63 616 265	63 452 478	163 787	163 787
WATER	37 658 506	44 557 351	(6 898 845)	-
WASTE WATER MANAGEMENT	16 214 658	24 683 285	(8 468 627)	-
TECHNICAL	58 943 162	45 839 665	13 103 497	13 103 497
	<b>321 899 802</b>	<b>330 486 136</b>	<b>(8 586 334)</b>	<b>27 673 975</b>

### EXPENDITURE PER VOTE

	2015 Actual	2015 Budget	2015 Variance	2015 Unauthorised
EXECUTIVE AND COUNCIL	38 632 377	27 750 250	10 882 127	10 882 127
MUNICIPAL MANAGER	8 494 736	8 155 065	339 671	339 671
FINANCE BUDGET AND TREASURY	15 036 226	20 541 976	(5 505 750)	-
FINANCE - SUPPLY CHAIN	1 237 850	1 275 364	(37 514)	-
CORPORATE SERVICES	9 942 084	9 119 618	822 466	822 466
WASTE MANAGEMENT	6 294 710	26 029 274	(19 734 564)	-
COMMUNITY AND SOCIAL SERVICES	28 936 105	33 240 962	(4 304 857)	-
HOUSING	6 165 554	6 828 211	(662 657)	-
ELECTRICITY	60 938 096	68 846 125	(7 908 029)	-
WATER	38 528 274	39 684 173	(1 155 899)	-
WASTE WATER MANAGEMENT	18 734 890	16 911 917	1 822 973	1 822 973
TECHNICAL	50 183 752	35 557 048	14 626 704	14 626 704
	<b>283 124 654</b>	<b>293 939 983</b>	<b>(10 815 329)</b>	<b>28 493 941</b>

The above unauthorised expenditure has been calculated on the determination of a "vote" as defined the MFMA which states - "vote" means -

- (a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and
- (b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

Note that the Unauthorised expenditure of R28 009 385 was previously reported for 2015 unauthorised expenditure. This amount has been restated according to the above calculation.(overspending on the individual votes).

## Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

### Notes to the Audited Annual Financial Statements

Figures in South African Rand	2016	2015
<b>42. Irregular expenditure</b>		
Opening balance	209 528 697	158 652 204
Add: Irregular Expenditure - current year (Supply Chain Management regulations not adhered to)	29 839 660	50 876 493
	<b>239 368 357</b>	<b>209 528 697</b>
<b>Details of irregular expenditure – current year</b>		
Supply Chain Management Regulation and/or Policy deviations	Disciplinary steps taken/criminal proceedings Items have been referred to MPAC for investigation and the need for criminal proceedings to be determined	29 839 660
- Lack of supporting documentation	Goods and/or services were received in all instances and none of these payments were made in vain.	
- Deviations not in accordance with S36 of SCM regulations		
<b>43. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Opening balance	998 995	870 662
Current year subscription / fee	1 234 681	1 029 231
Amount paid - current year	(1 129 560)	(900 898)
	<b>1 104 116</b>	<b>998 995</b>
<b>Non-compliance with MFMA</b>		
During the year the following instance of non-compliance with the MFMA occurred:		
<ul style="list-style-type: none"> <li>• Suppliers not paid in 30 days;</li> <li>• Reporting to Organisations of State &amp; AGSA not submitted within timeframes;</li> <li>• Spending without council approved budgeted;</li> <li>• Not adhering SCM regulations;</li> <li>• Systems and Procedures not effective and efficient; and</li> <li>• Staff not reaching the required competencies.</li> <li>• Systems not established in terms of Section 44 to resolve disputes with organs of State</li> </ul>		
<b>Audit fees</b>		
Opening balance	449 679	120 682
Write off	-	(103 795)
Expense - current year	4 898 317	6 481 287
Expense paid	(5 329 466)	(6 048 495)
	<b>18 530</b>	<b>449 679</b>
<b>PAYE and UIF</b>		
Amount paid - current year	11 545 789	9 944 987
<b>Pension and Medical Aid Deductions</b>		
Amount paid - current year	29 319 212	26 135 432
<b>VAT</b>		
VAT payable	5 608 242	4 648 517

VAT output payables and VAT input receivables are shown in note 17.

# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

## Notes to the Audited Annual Financial Statements

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

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

#### Councillors' arrear consumer accounts

Councillors did not have any arrear accounts outstanding or outstanding for more than 90 days at 30 June 2015:

For the year ending 30 June 2016 Councillors had arrear accounts outstanding for more than 90 days as per below -

30 June 2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor P. Faxi	490	869	1 359

#### Supply chain management regulations - Deviations

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

#### Incident

Section 36(1)(a)(i) - Emergency	871 491	411 386
Section 36(1)(a)(ii) - Sole Supplier	292 038	435 047
Section 36(1)(a)(v) - Impractical / Impossible (other)	14 037 784	29 654 195
	<u>15 201 313</u>	<u>30 500 628</u>

### 44. Related parties

#### Related party balances

##### Receivables

Department of Roads & Public Works	788 092	3 872 202
Department of Health	249 521	656 970
Department of Agriculture	72 848	84 041
Department of Education	746 329	477 715

#### Related party transactions

##### Revenue

Department of Health	687 999	565 436
Provincial Department of Roads & Public Works	1 939 108	789 547
National Department of Public Works	1 664 741	1 083 893
Department of Education	609 974	308 724
Department of Agriculture	112 349	95 163

# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

## Notes to the Audited Annual Financial Statements

Figures in South African Rand

### 45. Prior period errors

During the 2015/16 financial year, the comparative figures for the 2014/15 financial year have been restated in accordance with GRAP 3. The variances in terms of the Statement of Financial Position as well as Statement of Financial Performance have been disclosed below along with reasons for the prior period errors.

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

Statement of Financial Position	2015 Closing balance / 2016 Opening balances			
	Previously reported	Adjustment	As restated	Reference
Receivables from Non-exchange Transactions	11 149 541	(1 648 601)	9 500 940	1
Receivables from Exchange Transactions	24 914 298	(1 002 969)	23 911 329	2
Property, plant and Equipment	602 126 211	973 538	603 099 749	3
Operating Lease assets	43 852	310 970	354 822	4
Payables	(43 072 083)	(6 360 345)	(49 432 428)	5
Unspent Conditional grants and receipts	(9 182 638)	(77 804)	(9 260 442)	6
VAT Payable	(4 999 049)	350 532	(4 648 517)	7
Operating lease liability	(26 105)	2 641	(23 464)	8
Accumulated surplus	(706 767 860)	7 452 038	(699 315 822)	9
	<b>(125 813 833)</b>	<b>-</b>	<b>(125 813 833)</b>	<b>-</b>

#### 1 - Receivables from Non-Exchange transactions - Statement of Financial Position

Previously reported 2015 balance	11 149 541
Billing corrections for periods prior to 2015	(909 092)
Billing corrections for 2015	(620 451)
Correction in Provision for Doubtful debts prior to 2015	(119 058)
<b>Restated 2015 Closing balance</b>	<b>9 500 940</b>

#### 2 - Receivables from exchange transactions - Statement of Financial Position

Previously reported 2015 balance	24 914 297
Billing corrections for periods prior to 2015	(1 042 853)
Billing corrections for 2015	(280 476)
Cut-off billing corrections	320 361
<b>Restated 2015 Closing balance</b>	<b>23 911 329</b>

#### 3- Property, plant and equipment - Statement of Financial Position

Previously reported 2015 balance	602 126 211
WIP recognised relating to retention portion - revenue not previously recognised	973 538
<b>Restated 2015 Closing Balance</b>	<b>603 099 749</b>

#### 4- Operating lease assets - Statement of Financial Position

Previously reported 2015 balance	43 852
Correction of balance prior to 2015 due to incomplete register	289 244
Correction relating to 2015 due to incomplete register	21 726
<b>Restated 2015 Closing Balance</b>	<b>354 822</b>

# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

## Notes to the Audited Annual Financial Statements

Figures in South African Rand

### 45. Prior period errors (continued)

#### 5- Payables - Statement of Financial Position

Previously reported 2015 balance	(43 072 083)
Understatement of accruals at year end 2015	(2 450 482)
Understatement of accruals year end 2014	(34 915)
Effect of SAMWU accrual prior to 2015	(3 474 041)
Effect of SAMWU accrual for 2015	(606 597)
Correction of overtime accrual not accounted for previously	(450 877)
Correction of Prior period accruals due to duplication	656 567
<b>Restated 2015 Closing Balance</b>	<b>(49 432 428)</b>

#### 6 - Unspent Conditional grants and receipts - Statement of Financial Position

Previously reported 2015 balance	(9 182 638)
Correction of Cacadu IDP support unspent conditional grant	(15 468)
Correction of EPWP unspent conditional grant	(7 630)
Correction of Disaster Fund unspent conditional grant	(54 706)
<b>Restated 2015 Closing balance</b>	<b>(9 260 442)</b>

#### 7 - VAT Payable - Statement of Financial Position

Previously reported 2015 balance	(4 999 049)
Cut-off billing corrections	(38 253)
Correction of Prior period accruals due to duplication	388 785
<b>Restated 2015 Closing balance</b>	<b>(4 648 517)</b>

#### 8 - Operating Lease Liability - Statement of Financial Position

Previously reported 2015 balance	(26 105)
Correction of balance prior to 2015 due to incomplete register	(4 827)
Correction relating to 2015 due to incomplete register	7 468
<b>Restated 2015 Closing balance</b>	<b>(23 464)</b>

#### 9 - Accumulated Surplus - Statement of Financial Position

Previously reported 2014 Opening balance	(669 171 882)
Effect of opening balance corrections relating to -	4 625 174
Billing corrections - Receivables from non-exchange transactions	909 092
Billing corrections - Receivables from exchange transactions	1 042 853
Operating lease asset corrections	(289 244)
Operating lease liability corrections	4 827
Understatement accrual 2013/14	34 915
Effect of the duplication of Accruals from prior period	(1 045 352)
Correction in Provision for Doubtful debts prior to 2015	119 058
Correction of Cacadu IDP support unspent conditional grant	15 468
Correction of EPWP unspent conditional grant	7 630
Correction of Disaster Fund unspent conditional grant	54 706
Effect of correction in overtime accrual relating to 2014	297 180



## Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

### Notes to the Audited Annual Financial Statements

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<b>45. Prior period errors (continued)</b>	
Effect of SAMWU accrual	3 474 041
RESTATED 2014/15 OPENING BALANCE	(664 546 708)
	-
RESTATED 2014/15 (Surplus)/Deficit	(34 769 114)
Previously reported surplus	(37 595 978)
Net corrections as per 2014/15 Statement of Financial Performance (see below)	2 826 864
	-
<b>RESTATED 2014/15 CLOSING BALANCE</b>	<b>(699 315 822)</b>

Statement of Financial Performance	2015 Comparative restatements			Reference
	Previously reported	Adjustment DT/(CT)	As restated	
<b>REVENUE</b>				
Property Rates	68 591 944	587 657	68 004 287	i
Service Charges	96 266 690	1 922 184	94 344 506	ii
Government grants and Subsidies	104 534 446	(973 539)	105 507 985	iii
Other Income	2 816 797	9 711	2 807 086	iv
Interest Received	7 416 151	74 457	7 341 694	v
Rental of facilities and equipment	1 192 235	(21 723)	1 213 958	vi
<b>EXPENDITURE</b>				
Employee related costs	(99 901 692)	760 293	(100 661 985)	vii
Lease rentals on operating lease	(2 453 603)	(603)	(2 453 000)	viii
Repairs and Maintenance	(12 188 952)	153 339	(12 342 291)	ix
Bulk purchases	(46 757 968)	(352 847)	(46 405 121)	x
Contracted Services	(18 394 707)	2 121 664	(20 516 371)	xi
General Expenses	(39 565 674)	(1 453 729)	(38 111 945)	xii
	<b>61 555 667</b>	<b>2 826 864</b>	<b>58 728 803</b>	-

#### i) Property Rates - Statement of Financial Performance

As previously reported	68 591 944
Effect of Billing corrections for 2015	(587 657)
	<b>68 004 287</b>

#### ii) Service Charges - Statement of Financial Performance

As previously reported	96 266 690
Effect of Billing corrections for 2015	(231 599)
Cutt off corrections	284 605
Reclassification from General expenses - Sewerage and waste disposal - Interdepartmental Charges	(229 905)
Reclassification from General expenses - Electricity - Interdepartmental Charges	(1 388 443)
Reclassification from Bulk Expenses - Water - Interdepartmental Charges	(356 842)
	<b>94 344 506</b>

# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

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Figures in South African Rand

### 46. Prior period errors (continued)

<b>iii) Government grants and Subsidies - Statement of Financial Performance</b>	
As previously stated	104 534 446
WIP recognised relating to retention portion - revenue not previously recognised	973 539
	<u>105 507 985</u>
<b>iv) Other income - Statement of Financial Performance</b>	
As previously stated	2 816 797
Effect of Billing corrections for 2015	(9 711)
	<u>2 807 086</u>
<b>v) Interest Received - Statement of Financial Performance</b>	
As previously stated	7 416 151
Effect of Billing corrections for 2015	(74 457)
	<u>7 341 694</u>
<b>vi) Rental of facilities and equipment - Statement of Financial Performance</b>	
As previously stated	1 192 235
Correction relating to 2015 due to incomplete register	21 723
	<u>1 213 958</u>
<b>vii) Employee Costs - Statement of Financial Performance</b>	
As previously reported	(99 901 692)
Effect of SAMWU Accrual for 2015	(606 596)
Effect of correction in overtime accrual relating to 2015	(450 877)
Effect of correction in overtime accrual relating to 2014	297 180
	<u>(100 661 985)</u>
<b>viii) Lease rentals on operating lease - Statement of Financial Performance</b>	
As previously reported	(2 453 603)
Correction relating to 2015 due to incomplete register	7 468
Reclassification of accounts to Operating lease expenditure	(6 865)
	<u>(2 453 000)</u>
<b>ix) Repairs and Maintenance - Statement of Financial Performance</b>	
As previously reported	(12 188 952)
Understatement of accruals at year end 2015	(153 339)
	<u>(12 342 291)</u>

# Ndlambe Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2016

## Notes to the Audited Annual Financial Statements

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### 45. Prior period errors (continued)

#### x) Bulk purchases - Statement of Financial Performance

As previously reported	(46 757 968)
Understatement of accruals at year end 2015	(3 994)
Reclassification from Bulk Expenses - Water - Interdepartmental Charges	356 841
	<u>(46 405 121)</u>

#### xi) Contracted services - Statement of Financial Performance

As previously reported	(18 394 707)
Understatement of accruals at year end 2015	(2 121 664)
	<u>(20 516 371)</u>

#### xii) General Expenses - Statement of Financial Performance

As previously reported	(39 565 674)
Understatement of accruals at year end 2015	(171 484)
Reclassification of accounts to Operating lease expenditure	6 865
Reclassification of General expenses - Sewerage and waste disposal - Interdepartmental charges	229 905
Reclassification of General expenses - Electricity - Interdepartmental charges	1 388 443
	<u>(38 111 945)</u>

#### The following disclosures have been restated:

##### Operating leases - as lessee (expense) - Note 38

###### Previous Disclosure

Minimum lease payments due	
- within one year	168 225
- in second to fifth year inclusive	183 206
	<u>351 431</u>

###### New disclosure

Minimum lease payments due	
- within one year	675 533
- in second to fifth year inclusive	1 316 958
	<u>1 992 491</u>

The adjustment above was affected due to the listing of the prior period not being complete.

#### The following disclosures have been restated:

##### Operating leases - as lessor (income) - Note 38

###### Previous Disclosure

Minimum lease payments due	
- within one year	418 958
- in second to fifth year inclusive	1 309 132
- Later than 5 years	338 436
	<u>1 647 568</u>

###### New disclosure

Minimum lease payments due	
- within one year	420 158
- in second to fifth year inclusive	1 315 258
- Later than 5 years	338 436
	<u>1 653 694</u>

The adjustment above was affected due to the lease register of the prior period not being complete.

# Ndlambe Local Municipality

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### 45. Prior period errors (continued)

The following disclosures have been restated:

**Irregular expenditure - Note 42**

**Previous Disclosure**

Opening balance - 2015	158 652 204
Add: Irregular Expenditure - current year	39 666 606
	<u>198 318 810</u>

**New disclosure**

Opening balance - 2015	158 652 204
Add: Irregular Expenditure - current year	50 876 493
	<u>209 528 697</u>

The adjustment to the irregular expenditure in the prior period is as a result of additional irregular expenditure identified during 2015/16 relating to 2014/15 after an extensive review process.

### Cash flow statement

	As previously reported	Adjustment	Corrected Figures
<b>Cash flow from operating activities</b>			
<b>Receipts</b>			
Rates and Services	143 859 154	(2 258 081)	141 601 073
Government grants and Subsidies	104 534 447	973 538	105 507 985
Interest Income	7 416 152	(74 458)	7 341 694
Other receipts	3 422 907	(9 711)	3 413 196
<b>Payments</b>			
Employee costs	(105 510 419)	(760 294)	(106 270 713)
Suppliers	(111 157 741)	3 102 543	(108 055 198)
Finance costs	(2 461 170)	-	(2 461 170)
	<u>40 103 330</u>	<u>973 537</u>	<u>41 076 867</u>
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment	(28 545 206)	(973 537)	(29 518 743)
Purchase of other intangible assets	(209 898)	-	(209 898)
	<u>(28 755 104)</u>	<u>(973 537)</u>	<u>(29 728 641)</u>
<b>Cash flow from financing activities</b>			
Movement in Long term Liabilities	(3 898 542)	-	(3 898 542)
	<u>(3 898 542)</u>	<u>-</u>	<u>(3 898 542)</u>

The cash flow restatement above details the movements between the previously reported Cash Flow Statement and the restated 2014/15 comparative figures. The reason for the adjustments are due to the individual errors as detailed in note 45. This can be attributed to cut-off errors on expenditure and service charges.

## Ndlambe Local Municipality

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#### 46. Fruitless and wasteful expenditure

	2016	2015
Opening balance	39 222	-
Fruitless and Wasteful Expenditure - Current year	106 706	39 222
	<u>145 928</u>	<u>39 222</u>

Fruitless wasteful expenditure has been incurred due to interest on late payments made as well as penalties incurred on SARS assessments and late implementation of company contribution percentages for pension funds. All of the matters that resulted in fruitless and wasteful expenditure in the current year have been investigated and not criminal or disciplinary steps were taken against any officials.

Procedures and systems' amendments have been affected to avoid instances of fruitless and wasteful expenditure re-occurring.

#### 47. Budget differences

##### Material differences between budget and actual amounts

Variances are considered to be material for the GRAP 24 variance disclosure where it exceeds 10%.

Below are details of the relevant material variances as per the Statement of Budget versus Actual Comparison:

##### 47.1) Service Charges:

The actual Sewerage and Sanitation income was R11 million below budget, the actual Refuse income was R8,2 million below budget, the actual Water income was R6,7 million below budget, the actual Electricity income was R3,2 million below budget. The income from indigents was not realised in the budget, but was covered by the equitable share received. The actual demand of consumers was also overstated.

##### 47.2) Rendering of Services: Immaterial variance

##### 47.3) Rental of Facilities and Equipment:

The variance is due to inadequate budgeting processes based on incremental budgeting that have resulted in the overstatement of the projected income from the rental of housing and other building rentals.

##### 47.4) Licences and Permits:

The variance on licences and permits is due to actual driver and learner licences fees being lower than anticipated due to testing being suspended for a period during the year. Furthermore, inadequate budgeting processes were followed on the application of horse power levy by doing incremental budgeting and not taking prior period actuals into account.

##### 47.5) Rental Income

This is in respect of the chemical toilets that we hire out and demand for the toilets is never known at the time of budget so best estimates are used based on prior years demands.

##### 47.6) Other income: Immaterial variance

##### 47.7) Interest received - Investment

According to the budget assumptions made, grant income would have been spent faster than what materialised, resulting in less interest earned on investments. Additional interest income (over and above budgeted amounts) was however realised on the grant investments due to timing delays in the spending of grant funding.

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### 47. Budget differences (continued)

#### 47.8) Property Rates

At the time of the budget the income foregone budget was drastically cut to decrease the increase in rates that ratepayers would be required to pay had income foregone been correctly budgeted for. The budget for rates income therefore did not provide the true projection for revenue that would be received from rates.

#### 47.9) Government Grants and Subsidies

Grant funding was received during the financial year but not presented to council as an adjustment budget.

#### 47.10) Fines, penalties and Forfeits

When preparing the budgets for fines, penalties and forfeits, previous years actual revenue is used to project the future years budget. However vehicles became unserviceable and staff did not have the tools of trade to move throughout Ndlambe and generate the fines as in previous years on which projections were based.

#### 47.11) Personnel

The R14,3 million variance is due to the unbudgeted Post Retirement Medical Aid (Employee Benefits) movements during the year.

#### 47.12) Remuneration of Councillors: Immaterial Variance

#### 47.13) Alternative Energy Programme:

The variance is due to the budgeting of the full amount of indigent subsidy as expenditure, whereas a portion thereof should have been allocated as a reduction in revenue recognised in respect of budgeting purposes.

#### 47.14) Depreciation and Amortisation:

When doing the budget the depreciation budget was drastically reduced to in turn reduce the percentage increase to ratepayers and consumers. The depreciation budget is seen as a non-cash budget item where there will not be a reduction to an actual revenue flow to the municipality if the budget is reduced.

#### 47.15) Finance Costs:

The variance in finance costs relates to the budgeting process not taking into account the settlement of the DBSA loans which in turn resulted in a reduction of actual interest paid. Furthermore, the interest on bank overdraft was budgeted for without any related expenditure.

#### 47.16) Lease rentals on operating lease: Immaterial difference

#### 47.17) Debt Impairment :

When doing the budget an estimation was undertaken of the amount of doubtful debts to provide for. The write-off of doubtful debts during the current year was however higher than anticipated. This resulted in the surplus variance on the debt impairment being in surplus.

#### 47.18) Repairs and Maintenance

The actual repairs and maintenance spent during the current year did not match the budgeted amounts due to cashflow constraints associated with lower than expected collection rates.

#### 47.19) Bulk Purchases

The actual amounts incurred was due to higher than anticipated consumption during the winter months.

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### 47. Budget differences (continued)

#### 47.20) Contracted Services:

The budget for the contract payments to Manelec was under-budgeted and this resulted in the majority of the over-expenditure. The formula used to calculate the payment is dependent on electricity sales figures and actual sales was understated in the budget calculation. Furthermore, the actual spending on consultants for the infrastructure valuation was not budgeted for.

#### 47.21) Transfers and Subsidies:

The actual represents subsidies to tourism and anti-crime and are paid on submission of evidence of the service they render. The anti-crime unit in Port Alfred's contribution was suspended for a comprehensive period of time for them to formalise their business plan which resulted in underspending.

#### 47.22) General Expenses:

General expenditure budget has been overstated due to indigents being covered by the equitable share received and budgeted for under general expenditure. Furthermore, audit fees were also underbudgeted due to larger than anticipated audit fees as a result of the extended scope in the prior period due to restatements.

#### 47.23) Loss on Disposal of Assets:

At the time of the budget a nominal budget is provided for losses on disposals of assets as it not Council's intention to dispose of assets at a loss. It is also not known at the time of the budget what assets would be up for disposal. As such budget is not provided to the extent of the actual accounting losses incurred as this would have to be funded with revenue through rate increases.

#### 47.24) Fair Value adjustments

At the time of the budget a nominal budget is provided for fair value adjustments. It is also not known at the time of the budget what the effect of external factors would be on the landfill provision estimate. As such budget is not provided to the extent of the actual fair value losses incurred as this would have to be funded with revenue through rate increases.

### Amendments made to Budget classification per Budget vs Actual Statement

The changes of budget classification are indicated below for items that have been budgeted but not disclosed as per the GRAP determination as per the Statement of Financial Performance. The below reconciliations indicate the amendments for the purposes of disclosure in this Statement which aims to assist the user in making informed decisions based on the appropriate and like variances.

#### Reconciliation - Other Income

	ORIGINAL BUDGET	FINAL BUDGET
<b>Annual Financial Statement GRAP classification</b>		
Rental Income	(5 712)	(5 712)
Other income	(3 122 011)	(3 122 011)
<b>Original Classification - Other income</b>	<b>3 127 723</b>	<b>3 127 723</b>
	-	-

#### Reconciliation - Expenditure

	ORIGINAL BUDGET	FINAL BUDGET
<b>Annual Financial Statement GRAP classification</b>		
Lease rentals on operating lease	2 961 470	2 888 681
Transfers and Subsidies paid	1 098 500	1 098 500
General Expenditure	50 573 532	50 566 833
<b>Original Classification - General expenditure</b>	<b>(54 633 502)</b>	<b>(54 554 014)</b>
	-	-

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### 48. Risk management

#### Financial risk management

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

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

#### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

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

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

#### Interest rate risk

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

The municipality's interest rate risk arises from long-term borrowings. Borrowings are all issued at fixed rates which means that the municipality is not exposed to interest rate risk, as any change in interest rates will not affect the repayment terms of the long term liabilities. During 2016 and 2015, the municipality had no borrowings at variable rates.

The municipality is however exposed to credit interest rate risk relating to repayment of interest bearing loans resulting in cash outflow as detailed below.

#### Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Trade and other payables	- %	45 215 744	-	-	-	-
Financial liabilities - DBSA	8.8% - 17%	3 198 595	3 198 595	3 198 595	3 198 595	10 016 523

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, trade debtors and shares traded on the open market. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used.

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

Financial instruments	2016	2015
Receivables from non-exchange transactions	14 668 278	9 500 940
Receivables from exchange transactions	21 828 069	23 911 329
Cash and cash Equivalents	31 355 566	28 720 873
Other Financial Assets	141 525	144 979

The municipality holds deposits of R1 749 301 (2015: R1 700 733) from consumer debtors. No guarantees or collateral was provided to third parties.



# Ndlambe Local Municipality

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### 48. Risk management (continued)

#### Price risk

The municipality is exposed to equity securities price risk because of investments held by the municipality and classified on the statement of financial position at fair value through surplus or deficit. The municipality is not exposed to commodity price risk. Price risk is not actively managed as the extent of the holdings in equity instruments are limited and diversification of the portfolio is done in accordance with the limits set by the municipality.

The municipality's investments in equity of other entities that are publicly traded and are included in on the JSE (Johannesburg Stock Exchange)

The table below summarises the impact of increases/decreases of the indexes on the municipality's surplus for the year and on equity. The analysis is based on the assumption that the equity indexes has increased/decreased by 5% with all other variables held constant and all the municipality's equity instruments moved according to the historical correlation with the index:

Financial instrument	Impact on surplus in Rand Increase		Impact on surplus in Rand (Decrease)	
	2016	2015	2016	2015
JSE Old Mutual Shares	7 076	7 249	(7 076)	(7 249)

Surplus for the year would increase/(decrease) as a result of gains or losses on equity securities classified as at fair value through surplus or deficit.

### 49. Water and electricity losses

Material Losses	2016	2015
Water	15 203 541	11 724 533
Electricity	6 825 232	5 393 305
	<u>22 028 773</u>	<u>17 117 838</u>

#### Water Losses

In 2016 the water reticulation losses were 40.4% (3 815 420 kl supplied and 2 275 041 kl sold) (2015: 40.9% (3 060 500 kl supplied and 1 807 879 kl sold). In both years these losses are predominantly due to physical losses from leaks, burst pipes and reservoir overflows. Furthermore apparent losses are realised due to metering inefficiencies, meter faults, unauthorised and unmetered consumption.

#### Electricity Losses

In 2016, the energy losses were 17.24% (2015: 15.22%). Energy purchased was 43 982 056 kWh and 36 398 465 kWh was sold (2015: 43 737 926 kWh purchased and 37 079 524 kWh sold). These losses are predominantly due to MV and LV losses in switchgear, overheadlines, obsolete aluminium lines, underground cables and transformers. Furthermore losses are attributed to metering and meter reading losses and losses due to tampering.

