



Ngwathe Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2014

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## General Information

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<b>Legal form of entity</b>	Category C Municipality in terms of section 1 of the Local Government Municipal Structures Act, 1998 (Act 117 of 1998) read with section 15 (1) of the Constitution of the Republic of South Africa (Act 108 of 1996)
<b>Municipal demarcation code</b>	FS203
<b>Nature of business and principal activities</b>	The primary function of the Ngwathe Municipality is to provide basic services ie water, electricity, sewerage, water and sanitation to the Parys jurisdiction.
<b>Mayoral committee</b>	
Executive Mayor	Mochela MJ
Speaker	Ndayi PR
Chief Whip	Vandisi TL
<b>Councillors</b>	Bocibo CN Choni PS De Beer V Hlpana ML Khumalo KJ Magashule ME Mandelstam GP Masike RI Masooa J Mbele A
<b>Grading of local authority</b>	Category C
<b>Capacity of local authority</b>	Low capacity
<b>Accounting Officer</b>	Kamolane, LD
<b>Chief Finance Officer (CFO)</b>	Hlongwane, AT ( Acting)
<b>Registered office</b>	12 Liebenbergs trek Parys 9585
<b>Business address</b>	12 Liebenbergs trek Parys 9585
<b>Postal address</b>	PO Box 359 Parys 9585
<b>Bankers</b>	ABSA
<b>Auditors</b>	Auditor-General of South Africa
<b>Attorneys</b>	Utilise attorneys in Municipal area (detail list available at municipal offices)

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Index

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

<b>Index</b>	<b>Page</b>
Accounting Officer's Responsibilities and Approval	3
Statement of Financial Position	4
Statement of Changes in Net Assets	6
Statement of Financial Performance	5
Cash Flow Statement	7
Statement of Comparison of Budget and Actual Amounts	8
Accounting Policies	9 - 27
Notes to the Annual Financial Statements	28 - 73
Appendixes:	
Appendix A: Schedule of External loans	74
Appendix B: Analysis of Property, Plant and Equipment	75
Appendix E(1): Actual versus Budget (Revenue and Expenditure)	77
Appendix F: Disclosure of Grants and Subsidies in terms of the Municipal Finance Management Act	78

### Abbreviations

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

# **Ngwathe Local Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Accounting Officer's Responsibilities and Approval**

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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 annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2015 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 accounting officer is primarily responsible for the financial affairs of the municipality.

The external auditors are responsible for auditing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 4 to 73, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2014 and were signed on his behalf by:

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**Municipal Manager**

**Mr L D Kamolane**

**31 August 2014**

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Financial Position as at 30 June 2014

Figures in Rand		2014	2013- Restated
<b>Assets</b>			
Current Assets			
Cash and cash equivalents	3	7 990 198	46 747 113
Other financial assets	4	445 546	430 776
Inventories	5	484 917	503 577
Sundry debtors	6	106 330 143	106 193 419
Receivables from non-exchange transactions	7	89 572 868	65 557 568
Consumer receivables from exchange transactions	8	236 493 169	140 450 950
VAT receivable	9	38 571 940	6 406 867
		<b>479 888 781</b>	<b>366 290 270</b>
Non-Current Assets			
Investment property	10	152 718 000	152 718 000
Property, plant and equipment	11	1 094 612 165	1 135 041 595
Other financial assets	4	916 883	809 402
		<b>1 248 247 048</b>	<b>1 288 568 997</b>
<b>Total Assets</b>		<b>1 728 135 829</b>	<b>1 654 859 267</b>
<b>Liabilities</b>			
Current Liabilities			
Payables from exchange transactions	13	341 458 462	260 091 984
Consumer deposits	14	4 787 647	4 077 105
Retirement benefit obligation	15	1 709 350	1 709 350
Unspent conditional grants and receipts	16	105 686 274	35 632 115
Bank overdraft	3	1 136 551	94 508
		<b>454 778 284</b>	<b>301 605 062</b>
Non-Current Liabilities			
Other financial liabilities	18	9 305 243	15 919 863
Retirement benefit obligation	15	56 103 650	56 103 650
Provisions	17	26 255 547	35 846 598
Long Service award	19	12 019 000	10 478 000
		<b>103 683 440</b>	<b>118 348 111</b>
<b>Total Liabilities</b>		<b>558 461 724</b>	<b>419 953 173</b>
<b>Net Assets</b>		<b>1 169 674 105</b>	<b>1 234 906 094</b>
Accumulated surplus		1 169 674 105	1 234 906 094

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Financial Performance

Figures in Rand		2014	2013- Restated
<b>Revenue</b>			
Service charges	21	315 690 954	256 157 344
Rental of facilities and equipment		311 215	2 290 614
Other income	22	1 628 684	1 727 771
Interest received	23	30 358 836	21 442 747
Property rates	24	42 923 014	48 722 964
Government grants & subsidies	25	147 282 325	202 198 672
Fines		826 390	1 096 771
<b>Total revenue</b>		<b>539 021 418</b>	<b>533 636 883</b>
<b>Expenditure</b>			
Employee related costs	26	(174 091 552)	(177 184 026)
Remuneration of councillors	27	(10 084 329)	(9 046 834)
Depreciation and amortisation	29	(101 495 200)	(97 194 922)
Finance costs	30	(1 826 968)	(3 273 815)
Repairs and maintenance		(20 458 137)	(18 581 748)
Bulk purchases	31	(149 690 322)	(128 865 523)
Contracted services	32	(4 676 521)	(8 506 519)
General expenses	33	(128 816 156)	(164 575 396)
<b>Total expenditure</b>		<b>(591 139 185)</b>	<b>(607 228 783)</b>
<b>Operating deficit</b>		<b>(52 117 767)</b>	<b>(73 591 900)</b>
Fair value adjustments	28	107 481	105 339
<b>Deficit for the year</b>		<b>(52 010 286)</b>	<b>(73 486 561)</b>

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
<b>Balance at 01 July 2012</b>	<b>1 308 388 709</b>	<b>1 308 388 709</b>
	-	-
Net income (losses) recognised directly in net assets	-	-
Deficit for the year	(73 482 615)	(73 482 615)
Total recognised income and expenses for the year	(73 482 615)	(73 482 615)
Total changes	(73 482 615)	(73 482 615)
<b>Balance at 01 July 2013</b>	<b>1 221 684 391</b>	<b>1 221 684 391</b>
Changes in net assets		
Deficit for the year	(52 010 286)	(52 010 286)
Total changes	(52 010 286)	(52 010 286)
<b>Balance at 30 June 2014</b>	<b>1 169 674 105</b>	<b>1 169 674 105</b>

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Cash Flow Statement

Figures in Rand	2014	2013- Restated
<b>Cash flows from operating activities</b>		
<b>Receipts</b>		
Grants	149 737 399	203 137 013
Interest income	30 358 836	21 442 747
Other receipts	1 939 898	5 007 232
Services	272 769 941	223 625 726
	<u>454 806 074</u>	<u>453 212 718</u>
<b>Payments</b>		
Employee costs	(139 742 645)	(154 798 866)
Suppliers	(298 637 373)	(274 949 004)
Finance costs	(1 826 968)	(3 273 815)
	<u>(440 206 986)</u>	<u>(433 021 685)</u>
<b>Undefined difference compared to the cash generated from operations note</b>	<b>(1 541 000)</b>	<b>-</b>
<b>Net cash flows from operating activities</b>	<b><u>13 058 088</u></b>	<b><u>20 191 033</u></b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(47 661 175)	103 581 503
Proceeds from sale of financial assets	(122 251)	(64 850)
	<u>(47 783 426)</u>	<u>103 516 653</u>
<b>Cash flows from financing activities</b>		
Repayment of other financial liabilities	(6 614 620)	(106 955 093)
Movement in long service awards	1 541 000	-
	<u>(5 073 620)</u>	<u>(106 955 093)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(39 798 958)</b>	<b>16 752 593</b>
Cash and cash equivalents at the beginning of the year	46 652 605	29 900 012
<b>Cash and cash equivalents at the end of the year</b>	<b><u>6 853 647</u></b>	<b><u>46 652 605</u></b>



# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual
Figures in Rand					
<b>Statement of Financial Performance</b>					
<b>Revenue</b>					
<b>Revenue from exchange transactions</b>					
Service charges	203 661 178	-	<b>203 661 178</b>	315 690 954	<b>112 029 776</b>
Rental of facilities and equipment	3 516 310	-	<b>3 516 310</b>	311 215	<b>(3 205 095)</b>
Other income	18 094 974	-	<b>18 094 974</b>	1 628 684	<b>(16 466 290)</b>
Interest received	4 972 005	-	<b>4 972 005</b>	30 358 836	<b>25 386 831</b>
<b>Total revenue from exchange transactions</b>	<b>230 244 467</b>	<b>-</b>	<b>230 244 467</b>	<b>347 989 689</b>	<b>117 745 222</b>
<b>Revenue from non-exchange transactions</b>					
<b>Taxation revenue</b>					
Property rates	41 149 507	-	<b>41 149 507</b>	42 923 014	<b>1 773 507</b>
Government grants & subsidies	157 276 000	-	<b>157 276 000</b>	147 282 325	<b>(9 993 675)</b>
<b>Transfer revenue</b>					
Fines	1 200 000	-	<b>1 200 000</b>	826 390	<b>(373 610)</b>
<b>Total revenue from non-exchange transactions</b>	<b>199 625 507</b>	<b>-</b>	<b>199 625 507</b>	<b>191 031 729</b>	<b>(8 593 778)</b>
<b>Total revenue</b>	<b>429 869 974</b>	<b>-</b>	<b>429 869 974</b>	<b>539 021 418</b>	<b>109 151 444</b>
<b>Expenditure</b>					
Personnel	(134 768 713)	-	<b>(134 768 713)</b>	(174 091 552)	<b>(39 322 839)</b>
Remuneration of councillors	(8 067 351)	-	<b>(8 067 351)</b>	(10 084 329)	<b>(2 016 978)</b>
Depreciation and amortisation	(2 200 000)	-	<b>(2 200 000)</b>	(101 495 200)	<b>(99 295 200)</b>
Finance costs	(1 970 000)	-	<b>(1 970 000)</b>	(1 826 968)	<b>143 032</b>
Repairs and maintenance	(19 220 000)	-	<b>(19 220 000)</b>	(20 458 137)	<b>(1 238 137)</b>
Bulk purchases	-	-	-	(149 690 322)	<b>(149 690 322)</b>
Contracted services	-	-	-	(4 676 521)	<b>(4 676 521)</b>
General expenses	255 470 936	-	<b>255 470 936</b>	(128 816 156)	<b>(384 287 092)</b>
<b>Total expenditure</b>	<b>89 244 872</b>	<b>-</b>	<b>89 244 872</b>	<b>(591 139 185)</b>	<b>(680 384 057)</b>
<b>Operating deficit</b>	<b>89 244 872</b>	<b>-</b>	<b>89 244 872</b>	<b>(52 117 767)</b>	<b>(141 362 639)</b>
Fair value adjustments	-	-	-	107 481	<b>107 481</b>
<b>Surplus</b>	<b>89 244 872</b>	<b>-</b>	<b>89 244 872</b>	<b>(52 010 286)</b>	<b>(141 255 158)</b>
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>89 244 872</b>	<b>-</b>	<b>89 244 872</b>	<b>(52 010 286)</b>	<b>(141 255 158)</b>
<b>Reconciliation</b>					

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

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

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

A summary of the significant accounting policies are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note First-time adoption of Standards of GRAP.

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

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

##### Trade 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 municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

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

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

An allowance for inventory to write inventory 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.

##### Impairment testing

The recoverable (service) amounts or recoverable service amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

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. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including supply demand together with economic factors.

##### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

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

The municipality's management determines the estimated useful lives and related depreciation/amortisation charges for property, plant and equipment and other assets. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality.

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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

#### Post retirement benefits

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 15 - Employee benefit obligations.

#### Effective interest rate

The municipality used the government bond rate to discount future cash flows.

#### Allowance for impairment

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

### 1.2 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
- administrative purposes; or
- sale in the ordinary course of operations.

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 at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

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

#### Fair value

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

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

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

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.

The gain or loss arising from the derecognition of investment property is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the investment property. Such difference is recognised in surplus or deficit when the investment property is derecognised.

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.

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current 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 or fair value of the item can be measured reliably.

Property, plant and equipment are initially measured at cost.

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

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the 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 municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

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

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

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

Subsequent to initial measurement property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

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

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

Item	Average useful life
Land	
Buildings	5 to 30
Plant and machinery	3 to 30
Furniture and fixtures	3 to 15
Motor vehicles	4 to 15
Office equipment	3 to 15
Landfill site	30
Infrastructure	5 to 100
Equipment	5 to 10
Airport	5 to 20

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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

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

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

The gain or loss 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. Such difference is recognised in surplus or deficit when the item of property, plant and equipment is derecognised.

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

### 1.4 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.5 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 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 statement of financial position date. 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 each statement of financial position date. 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 statement of financial position date. 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. The carrying amount of available-for-sale financial assets would be an estimated R - lower or R - higher were the discounted rate used in the discount cash flow analysis to differ by 10% from management's estimates Impairment testing.

The recoverable amounts of cash-generating units and non cash generating assets have been determined based on the higher fair value and less cost to sell and value in use. These calculations require the use of estimates and assumptions.

#### Classification

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

Cash & Cash equivalent	Financial asset measured at amortised cost
Other Financial assets	Financial asset measured at fair value
Receivables from non exchange transactions	Financial asset measured at amortised cost
Receivables from non exchange transactions	Financial asset measured at fair value

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

Other Financial liabilities	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Other payables	Financial liability measured at amortised cost
Payables from non exchange transactions	Financial liability measured at amortised cost

#### Initial recognition

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

The municipality recognises financial assets using trade date accounting.

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

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

The municipality measures all other financial assets and financial liabilities initially at its fair value.

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

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.5 Financial instruments (continued)

- 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.

#### Derecognition

##### Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

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

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

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

##### Financial liabilities

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

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

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

### 1.6 Leases

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

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

#### Operating leases - lessee

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

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

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.7 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for a nominal cost, then their costs are their fair value as at the date of acquisition.

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

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

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

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

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

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

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

The cost of inventories is assigned using the 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, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.8 Impairment of cash-generating assets

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

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.

#### 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. The recoverable amount of a cash generating asset or cash generating unit is the highest of its fair value less cost to sell and its fair value.

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

#### Value in use

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

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



# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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

#### Discount rate

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

#### Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

#### Cash-generating units

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

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

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

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

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

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

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

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

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

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

#### Reversal of impairment loss

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

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

#### Identification

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

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset. The recoverable service amount of a non-cash-generating asset is the higher of its fair value less cost to sell and its in use.

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

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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

#### Depreciated replacement cost approach

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

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

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.

### 1.10 Employee benefits

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.10 Employee benefits (continued)

- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

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

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

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

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

### Post-employment benefits

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

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

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

### Post-employment benefits: Defined contribution plans

The municipality provides retirement benefits for its employees and councillors. Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable. The Municipality pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Municipality has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

### Post-employment benefits: Defined benefit plans

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The Government Employees Pension Fund, Association Institution Pension Fund, South African Local Authorities Pension Fund and the Councillors Pension Fund are defined benefit. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable.

- plus any liability that may arise as a result of a minimum funding requirement.

### Pension obligations

Actuarial valuations are conducted on an interim basis each year with a statutory valuation undertaken every three years. Consideration is given to any extent that could impact the Funds up to the end of the reporting period where the interim valuation is performed at an earlier date. Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.10 Employee benefits (continued)

#### Long term service awards

The municipality has an obligation to provide long-term service allowance benefits to all of its employees. According to the rules of the long-term service allowance scheme, which the municipality instituted and operates, an employee (who is on the current conditions of service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities. Actuarial gains and losses on the long-term service awards are recognised in the statement of financial performance.

The amount recognised as a liability for long-term service awards is the net total of the following amounts:

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

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

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which is recognised immediately;
- past service cost, which is recognised immediately; and
- the effect of any curtailments or settlements.

#### Termination benefits

The municipality recognises termination benefits as a liability and an expense when the municipality is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the municipality has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer.

### 1.11 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.11 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 finance cost.

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

Provisions are not recognised for future operating expenditure.

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

A constructive obligation to restructure arises only when the municipality:

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

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- a present obligation that arises from past events but is not recognised because:
  - it is not probably that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
  - the amount of the obligation cannot be measured with sufficient reliability.

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

### 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; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality tests 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 1.8 and 1.9.

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.11 Provisions and contingencies (continued)

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;

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

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

### 1.12 Revenue from exchange transactions

Refers to transactions where the municipality received revenue from another entity without giving approximately equal value in exchange. Revenue from non exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount and the effective interest rate applicable. Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with management's best estimate of the probable inflows from the amounts not yet collected.

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, at the fair value of the consideration received or receivable. Contributed property, plant and equipment is recognised when ownership of the items of property, plant and equipment is transferred to the municipality.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

Income received from conditional grants, donations and subsidies is recognised 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 and funds are invested until utilised. Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder, it is recorded as part of the creditor. If it is the Municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

Grants and receipts of a revenue nature: income is transferred as revenue to the Statement of Financial Performance to the extent that the criteria, conditions or obligations have been met.

The municipality recognises the full amount of revenue of the fine issued at the transaction date when there is uncertainty about the municipality's ability to collect such revenue from the fine, based on past history, the municipality has an obligation to collect all revenue due to it.

Subsequent to initial recognition and measurement, the municipality assess the collectability of the revenue and recognises an impairment loss where appropriate for example there the municipality may offer early settlement discounts or amnesty periods. Where these reductions exist, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by the debtors.

### 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.

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.12 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

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

### 1.13 Revenue from non-exchange transactions

Refers to transactions where the municipality received revenue from another entity without giving approximately equal value in exchange. Revenue from non exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount and the effective interest rate applicable. Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with management's best estimate of the probable inflows from the amounts not yet collected.

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, at the fair value of the consideration received or receivable. Contributed property, plant and equipment is recognised when ownership of the items of property, plant and equipment is transferred to the municipality.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

Income received from conditional grants, donations and subsidies is recognised 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 and funds are invested until utilised. Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder, it is recorded as part of the creditor. If it is the Municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

Grants and receipts of a revenue nature: income is transferred as revenue to the Statement of Financial Performance to the extent that the criteria, conditions or obligations have been met.

The municipality recognises the full amount of revenue of the fine issued at the transaction date when there is uncertainty about the municipality's ability to collect such revenue from the fine. Based on past history, the municipality has an obligation to collect all revenue due to it.

Subsequent to initial recognition and measurement, the municipality assesses the collectability of the revenue and recognises an impairment loss where appropriate for example there the municipality may offer early settlement discounts or amnesty periods. Where these reductions exist, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by the debtors.



# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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

#### Recognition

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

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

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

#### 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 a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

#### Transfers

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

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

#### 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 municipality.

#### Rates, including collection charges and penalties

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

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

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

#### Services in-kind

Services in-kind are not recognised.

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.14 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised to the cost of that asset unless it is inappropriate to do so. The Municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquires cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in the Statement of Performance when incurred.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.8 and 1.9. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted.

Extended periods is periods that exceeds X months.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.15 Comparative figures

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

### 1.16 Unauthorised expenditure

Unauthorised expenditure means:

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

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

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.17 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.

### 1.18 Irregular expenditure

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

All expenditure relating to irregular 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.

### 1.19 Conditional grants and receipts

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

### 1.20 Budget information

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

The approved budget covers the fiscal period from 2013/07/01 to 2014/06/30.

The annual financial statements and the budget are not on the same basis of accounting. The actual financial statement information is therefore presented on a comparable basis to the budget information. The comparison and the reconciliation between the statement of financial performance and the budget for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### 1.21 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 is 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.

### 1.22 Commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- where the expenditure has been approved and the contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.23 Grants in aid

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

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

### 1.24 Events after the reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the annual financial statements. The events after the reporting date that are classified as non adjusting events after the reporting date have been disclosed in the notes to the annual financial statements.

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

2014

2013

### 2. New standards and interpretations

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

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

#### 2.2 Standards and Interpretations early adopted

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

#### 2.3 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 2014 or later periods:

#### GRAP 25: Employee Benefits

The objective of GRAP 25 is to prescribe the accounting and disclosure for employee benefits. The standard requires the municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when the municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP 25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP 25 defines, amongst others, the following:

- employee benefits as all forms of consideration given by the municipality in exchange for service rendered by employees;
- defined contribution plans as post-employment benefit plans under which the municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- defined benefit plans as post-employment benefit plans other than defined contribution plans;
- multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
  - pool the assets contributed by various entities that are not under common control; and
  - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- post-employment benefit plans as formal or informal arrangements under which the municipality provides post-employment benefits for one or more employees;
- short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- state plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- termination benefits as employee benefits payable as a result of either:
  - the municipality's decision to terminate an employee's employment before the normal retirement date; or
  - an employee's decision to accept voluntary redundancy in exchange for those benefits; and
- vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

- short-term employee benefits;
  - all short-term employee benefits;
  - short-term compensated absences;
  - bonus, incentive and performance related payments;
- post-employment benefits: defined contribution plans;
- other long-term employee benefits; and
- termination benefits.

## Notes to the Annual Financial Statements

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

The standard states post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- multi-employer plans;
- defined benefit plans where the participating entities are under common control;
- state plans;
- composite social security programmes; and
- insured benefits.

The standard states, for post-employment benefits: defined benefit plans, the following requirements:

- recognition and measurement;
- presentation;
- disclosure;
- accounting for the constructive obligation;
- statement of financial position;
- asset recognition ceiling;
- asset recognition ceiling: When a minimum funding requirement may give rise to a liability; and
- statement of financial performance.

The standard prescribes recognition and measurement for:

- present value of defined benefit obligations and current service cost:
  - actuarial valuation method;
  - attributing benefits to periods of service;
  - actuarial assumptions;
  - actuarial assumptions: Discount rate;
  - actuarial assumptions: Salaries, benefits and medical costs;
  - actuarial gains and losses; and
  - past service cost.
- plan assets:
  - fair value of plan assets;
  - reimbursements; and
  - return on plan assets.

The major difference between this this standard (GRAP 25) and IAS 19 is with regards to the treatment of actuarial gains and losses and past service costs. This standard requires the municipality to recognise all actuarial gains and losses and past service costs immediately in the statement of financial performance once occurred.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality has adopted the standard for the first time in the 2014 annual financial statements.

The impact of the standard is set out in note Changes in Accounting Policy.

### **GRAP 105: Transfers of Functions Between Entities Under Common Control**

The objective of this standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.

A transfer of functions between entities under common control is a reorganisation and / or reallocation of functions between entities that are ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities under common control, the assets and liabilities should be recognised (by the acquirer) at their carrying amounts and should be derecognised (by the transferor) at their carrying amounts.

The difference between amount of consideration paid or received, if any, and the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

Specific disclosures are required when there is a transfer of functions between entities under common control.

This standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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

The municipality expects to adopt the standard for the first time once it becomes effective.

#### **GRAP 106: Transfers of Functions Between Entities not Under Common Control**

The objective of this standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.

A transfer of functions between entities not under common control is a reorganisation and / or reallocation of functions between entities that are not ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities not under common control, the assets and liabilities should be recognised (by the acquirer) at their acquisition date fair values.

The difference between amount of consideration paid or received, if any, and the fair value of assets acquired and liabilities assumed should be recognised in accumulated surplus / (deficit).

For transfer of functions between entities not under common control there are some specific recognition and measurement principles and exceptions to the recognition and measurement principles.

Specific disclosures are required when there is a transfer of functions between entities not under common control.

This standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

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

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

The objective of this standard is to establish accounting principles for the combined entity and combining entities in a merger.

A merger is where a new combined entity is started, no acquirer can be identified and the combining entities do not have any control over the combined entity.

In the event of a merger, the assets and liabilities should be recognised (by the combined entity) at their carrying amounts and should be derecognised (by the combining entities) at their carrying amounts.

The difference between the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

Specific disclosures are required when there is a merger.

This standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

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

#### **GRAP 20: Related Parties**

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

The municipality (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between the municipality and its related parties;

## Notes to the Annual Financial Statements

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

- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

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

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

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

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

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

The standard elaborates on the definitions and identification of:

- close member of the family of a person;
- management;
- related parties;
- remuneration; and
- significant influence.

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

- control;
- related party transactions; and
- remuneration of management.

Only transactions with related parties where the transactions are not concluded within normal normal operating procedures or on terms that are not no more or no less favourable than the terms it would use to conclude transactions with another entity or person are disclosed.

The standard requires that remuneration of management must be disclosed per person and in aggregate.

This standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality has adopted the standard for the first time once it becomes effective.

The impact of the standard is set out in note Changes in Accounting Policy.



# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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

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

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2014 or later periods but are not relevant to its operations:

#### IGRAP 1 (as revised 2012): Applying the Probability Test on Initial Recognition of Revenue

This interpretation of the Standards of GRAP now addresses the manner in which the municipality applies the probability test on initial recognition of both:

- (a) exchange revenue in accordance with the Standard of GRAP on Revenue from Exchange Transactions; and
- (b) non-exchange revenue in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

This interpretation supersedes the interpretation of the Standards of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue issued in 2009.

The effective date of the interpretation is for years beginning on or after 01 April 2013.

The municipality has adopted the interpretation for the first time in the 2014 annual financial statements.

### 3. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	14 603	14 603
Bank balances	7 975 595	46 732 510
Bank overdraft	(1 136 551)	(94 508)
	<b>6 853 647</b>	<b>46 652 605</b>
Current assets	7 990 198	46 747 113
Current liabilities	(1 136 551)	(94 508)
	<b>6 853 647</b>	<b>46 652 605</b>

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2014	30 June 2013	30 June 2012	30 June 2014	30 June 2013	30 June 2012
ABSA Bank LTD - Cheque Account - 4052707733	2 705 056	814 727	757 648	(1 136 551)	(94 508)	645 543
ABSA Bank LTD - Call Account - 9253832988	184 367	482 958	465 907	184 368	482 959	465 907
ABSA Bank LTD - Call Account - 9253833502	3 873 906	36 365 971	20 212 013	3 873 907	36 365 971	20 212 013
ABSA Bank LTD - Call Account - 9253833764	488 315	2 083 940	1 045 669	488 316	2 083 941	1 045 669
ABSA Bank LTD - Call Account - 9253535643	23 382	3 652 279	33 745	23 382	3 652 279	33 745
ABSA Bank LTD - Cheque Account - 1130000041	92 858	3 652 279	7 482 532	92 858	4 147 360	7 482 532
Intergrated NAT Electrification	2 283 507	-	-	2 283 507	-	-
FMG	1 029 257	-	-	1 029 257	-	-
<b>Total</b>	<b>10 680 648</b>	<b>47 052 154</b>	<b>29 997 514</b>	<b>6 839 044</b>	<b>46 638 002</b>	<b>29 885 409</b>

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>4. Other financial assets</b>		
<b>At fair value</b>		
Senwes shares 4 329 shares @ R10.25 trading value (2013: R10.50)	44 374	45 455
Senwesbel shares 6 640 shares @ R5.50 trading value (2013: R5)	36 520	33 200
Sanlam shares 6 682 shares at R61.75 trading value (2013:R35.35)	412 614	307 372
	<b>493 508</b>	<b>386 027</b>
<b>At amortised cost</b>		
Heilbron Sanlam policy - 040571573X1	291 924	291 924
Heilbron Sanlam policy - 11209914X8	76 698	76 698
FNB Parys - 71037431386 FNB investment serves as guarantee for Saambou Bank.	39 761	39 761
FNB deposit The investment bears interest at 5.1% per annum. FNB investment serves as guarantee for BJ Monyamara.	14 992	14 992
	<b>423 375</b>	<b>423 375</b>
<b>Total other financial assets</b>	<b>916 883</b>	<b>809 402</b>
<b>Non-current assets</b>		
At fair value	493 508	386 027
At amortised cost	423 375	423 375
	<b>916 883</b>	<b>809 402</b>
<b>Current assets</b>		
At amortised cost	445 546	430 776
<b>5. Inventories</b>		
Fuel	48 895	48 895
Stores and materials	436 022	454 682
	<b>484 917</b>	<b>503 577</b>
<b>6. Sundry debtors</b>		
Sundry debtors	106 330 143	106 193 419
<b>7. Consumer receivables from non - exchange transactions</b>		
Rates	89 572 868	65 557 568

### Credit quality of receivables from non-exchange transactions

The credit quality of receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information.

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>7. (continued)</b>		
<b>Receivables from non-exchange transactions</b>		
Current ( 0 - 30 days)	-	3 668 595
31 - 60 days	-	2 942 563
61 - 90 days	-	2 227 354
91 - 120 days	-	56 719 056
	<b>-</b>	<b>65 557 568</b>
<b>8. Consumer receivables from exchange transactions</b>		
<b>Gross balances</b>		
Electricity	91 599 107	78 576 447
Water	184 043 144	115 265 027
Sewerage	59 445 039	54 240 402
Refuse	56 915 145	47 878 340
	<b>392 002 435</b>	<b>295 960 216</b>
<b>Less: Allowance for impairment</b>		
Electricity	(24 733 165)	(24 733 165)
Water	(58 589 413)	(58 589 413)
Sewerage	(36 664 404)	(36 664 404)
Refuse	(35 522 284)	(35 522 284)
	<b>(155 509 266)</b>	<b>(155 509 266)</b>
<b>Net balance</b>		
Electricity	66 865 942	53 843 282
Water	125 453 731	56 675 614
Sewerage	22 780 635	17 575 998
Refuse	21 392 861	12 356 056
	<b>236 493 169</b>	<b>140 450 950</b>
<b>Electricity</b>		
Current (0 -30 days)	66 865 942	5 745 362
31 - 60 days	-	8 922 229
61 - 90 days	-	2 142 130
91 - 120 days	-	37 033 561
	<b>66 865 942</b>	<b>53 843 282</b>
<b>Water</b>		
Current (0 -30 days)	151 972 549	3 642 292
31 - 60 days	-	13 709 142
61 - 90 days	-	1 377 760
91 - 120 days	-	37 946 420
	<b>151 972 549</b>	<b>56 675 614</b>
<b>Sewerage</b>		
Current (0 -30 days)	22 780 635	766 620
31 - 60 days	-	698 339
61 - 90 days	-	630 349
91 - 120 days	-	15 480 690
	<b>22 780 635</b>	<b>17 575 998</b>

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>8. Consumer receivables from exchange transactions (continued)</b>		
<b>Refuse</b>		
Current (0 -30 days)	21 392 861	480 804
31 - 60 days	-	491 638
61 - 90 days	-	441 738
91 - 120 days	-	10 941 876
	<b>21 392 861</b>	<b>12 356 056</b>
<b>Summary of receivables by customer classification</b>		
<b>Total</b>		
Current (0 -30 days)	263 011 987	10 635 077
31 - 60 days	-	23 821 348
61 - 90 days	-	4 591 978
91 - 120 days	-	101 402 547
	<b>263 011 987</b>	<b>140 450 950</b>
<b>Less: Allowance for impairment</b>		
31 - 60 days	(9 385 906)	(9 385 906)
61 - 90 days	(21 140 709)	(21 140 709)
91 - 120 days	(4 993 170)	(4 993 170)
121 - 365 days	(119 989 481)	(119 989 481)
	<b>(155 509 266)</b>	<b>(155 509 266)</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(155 509 266)	(155 509 266)

### Credit quality of receivables from exchange transactions

The credit quality of receivables from exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information.

### Receivables from exchange transactions

#### 9. VAT receivable

VAT	38 571 940	6 406 867
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#### 10. Investment property

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	152 718 000	-	152 718 000	152 718 000	-	152 718 000

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand 2014 2013

### 10. Investment property (continued)

#### Reconciliation of investment property - 2014

	Opening balance	Total
Investment property	152 718 000	152 718 000

#### Reconciliation of investment property - 2013

	Opening balance	Total
Investment property	152 718 000	152 718 000

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.

### 11. Property, plant and equipment

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Airports	2 093 000	(855 000)	1 238 000	2 093 000	(684 000)	1 409 000
Buildings	51 557 359	(18 744 544)	32 812 815	47 636 982	(11 314 570)	36 322 412
Furniture and fixtures	7 827 729	(7 017 448)	810 281	7 827 729	(5 609 446)	2 218 283
Infrastructure	1 502 739 402	(453 158 347)	1 049 581 055	1 445 594 010	(363 390 467)	1 082 203 543
IT equipment	3 356 421	(2 346 976)	1 009 445	3 356 421	(1 758 466)	1 597 955
Land	4 370 075	-	4 370 075	4 370 075	-	4 370 075
Motor vehicles	10 630 021	(7 486 198)	3 143 823	10 630 021	(5 987 488)	4 642 533
Office equipment	884 024	(697 857)	186 167	884 024	(539 956)	344 068
Plant and machinery	3 178 248	(1 717 744)	1 460 504	3 651 470	(1 717 744)	1 933 726
<b>Total</b>	<b>1 586 636 279</b>	<b>(492 024 114)</b>	<b>1 094 612 165</b>	<b>1 526 043 732</b>	<b>(391 002 137)</b>	<b>1 135 041 595</b>

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

	Opening balance	Additions	Depreciation	Total
Airport	1 409 000	-	(171 000)	1 238 000
Buildings	36 322 412	3 920 377	(7 429 974)	32 812 815
Furniture and fixtures	2 218 283	-	(1 408 002)	810 281
Infrastructure	1 082 203 543	57 145 392	(89 767 880)	1 049 581 055
IT equipment	1 597 955	-	(588 510)	1 009 445
Land	4 370 075	-	-	4 370 075
Motor vehicles	4 642 533	-	(1 498 710)	3 143 823
Office equipment	344 068	-	(157 901)	186 167
Plant and machinery	1 933 726	-	(473 222)	1 460 504
<b>Total</b>	<b>1 135 041 595</b>	<b>61 065 769</b>	<b>(101 495 199)</b>	<b>1 094 612 165</b>

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

2014

2013

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

#### Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Depreciation	Total
Airports	1 580 000	-	(171 000)	1 409 000
Buildings	39 151 959	-	(2 829 547)	36 322 412
Furniture and fixtures	3 136 820	342 216	(1 260 753)	2 218 283
Infrastructure	1 067 782 843	104 923 236	(90 502 536)	1 082 203 543
IT equipment	1 651 703	443 066	(496 814)	1 597 955
Land	4 370 075	-	-	4 370 075
Motor vehicles	6 011 273	-	(1 368 740)	4 642 533
Office equipment	372 358	96 703	(124 993)	344 068
Plant and machinery	1 914 519	459 749	(440 542)	1 933 726
	<b>1 125 971 550</b>	<b>106 264 970</b>	<b>(97 194 925)</b>	<b>1 135 041 595</b>

#### Transitional provisions

### 12. Operating lease asset (accrual)

### 13. Payables from exchange transactions

Audit fees	1 017 969	1 017 970
Accrued expenses	204 816	204 816
Accrued leave pay	16 503 033	16 503 033
Deposits received	407 631	406 491
Electricity prepaid	3 988 449	3 988 449
Other payables	4 719 851	4 690 198
Payments in advance	18 392 760	14 606 730
Sundry payables	6 338	6 338
Salary suspense account	11 532 237	7 011 343
Trade payables	251 786 298	178 757 536
Unallocated receipts	21 056 118	21 056 118
Accrued Bonuses	11 842 962	-
Accrued bonus	-	11 842 962
	<b>341 458 462</b>	<b>260 091 984</b>

### 14. Consumer deposits

Electricity	4 787 647	4 077 105
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### 15. Retirement benefit obligations

#### Defined benefit plan

The defined benefit plan, to which -% (2013: -%) belong, consists of the (specify Pension Fund) governed by the Pension Fund Act of 1956.

The actuarial valuation determined that the retirement plan was in a sound financial position, however that it was recommended that the contribution should be increased by -% for - months. This recommendation is presently being implemented.

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:

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>15. Retirement benefit obligations (continued)</b>		
<b>Carrying value</b>		
Present value of the defined benefit obligation	56 567 000	57 813 000
<b>Undefined Difference</b>	<b>(114 380 000)</b>	<b>(115 626 000)</b>
	<b>(57 813 000)</b>	<b>(57 813 000)</b>

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

Opening balance	74 594 000	42 506 000
Current Service Cost	3 892 000	2 384 000
Interest Cost	4 132 000	3 446 000
Benefits Paid	(1 640 000)	(1 474 000)
Actuarial Loss/(Gain)	(7 630 000)	10 951 000
Net expense recognised in the statement of financial performance	394 000	16 781 000
	<b>73 742 000</b>	<b>74 594 000</b>

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

Current service cost	3 892 000	2 384 000
Interest cost	4 132 000	3 446 000
Expected return on plan assets	(7 630 000)	10 951 000
	<b>394 000</b>	<b>16 781 000</b>

### Key assumptions used

Assumptions used at the reporting date:

Real discount rate	9,57 %	7,25 %
Consumer price inflation	7,10 %	6,25 %
Salary inflation	- %	7,15 %
Health care cost inflation	8,60 %	6,75 %
Net discount rate	0,89 %	0,47 %

	One % point Increase	One % point Decrease
Total accrued liability	(R68 981 000)	(R49 012 000)
Interest cost	(R 4 941 000)	(R 3 494 000)
Service cost	(R 4 931 000)	(R 3 108 000)

Present value of retirement benefit obligation for current and previous years

- 30 June 2014: (R56 567 000)
- 30 June 2013: (R57 813 000)
- 30 June 2012: (R42 506 000)
- 30 June 2011: (R39 070 000)

### Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees [or specify number of employees covered]. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

Included in defined contribution plan information above, is the following plan(s) which is (are) a Multi-Employer Funds and is (are) a Defined Benefit Plans, but due to the fact that sufficient information is not available to enable the municipality to account for the plan(s) as a defined benefit plan(s). The municipality accounted for this (these) plan(s) as a defined contribution plan(s):

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>16. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
Department of Mineral and Energy grant	22 100 000	-
Other grants	4 563 104	4 563 104
MIG grant	71 986 626	24 097 626
Department of Water Affairs grant	3 762 503	3 762 503
LGSETA grant	2 199 345	2 199 345
FMG	1 029 257	1 009 537
	<b>105 640 835</b>	<b>35 632 115</b>
<b>Movement during the year</b>		
Balance at the beginning of the year	35 632 115	34 693 774
Additions during the year	217 336 484	203 137 014
Income recognition during the year	(147 282 325)	(202 198 673)
	<b>105 686 274</b>	<b>35 632 115</b>

See note 25 - Government grants and subsidies for reconciliation of grants from National / Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

## 17. Provisions

### Reconciliation of provisions - 2014

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	35 846 598	-	(9 591 051)	26 255 547
Legal fees	-	910 386	-	910 386
	<b>35 846 598</b>	<b>910 386</b>	<b>(9 591 051)</b>	<b>27 165 933</b>

### Reconciliation of provisions - 2013

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	21 366 389	14 480 209	-	35 846 598
Legal proceedings	3 088 420	-	(3 088 420)	-
	<b>24 454 809</b>	<b>14 480 209</b>	<b>(3 088 420)</b>	<b>35 846 598</b>

### Environmental rehabilitation provision

In terms of licensing of the landfill refuse sites, the municipality will incur licensing and rehabilitation costs of R30 957 441 (2013: R30 957 441) to restore the site at the end of its useful life. Provision has been made for the net present value of this cost, using the average cost of borrowings. The landfill sites are not licensed and the municipality could incur penalties for not being licensed.



# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

2014

2013

### 17. Provisions (continued)

#### Legal proceedings provisions

Party:	Telkom
Nature/description:	Municipal employees allegedly damaged infrastructure whilst digging the ground where Telkom wires lies.
Instituting Attorneys:	Du Toit Mandelstam Attorneys
Prospects of success:	There are no prospects of success as the municipality defaulted
Estimated costs:	R2 000 000
Party:	Zemdock t/a Sedgars
Nature/description:	Zemdock allegedly sold and delivered certain properties to the municipality and the municipality failed to effect payment for delivered items. Original payments was affected of R192 000 and the outstanding payment of R24 000 remains which resulted from interest charged thereon hence they are suing the municipality.
Instituting Attorneys:	In-house
Prospects of success:	There are no grounds to defend the matter except to effect payment.
Estimated costs:	R144 007.33
Party:	Agri Aqua solutions
Nature/description:	Agri Aqua solutions supplied and delivered cleaning material to the municipality and the municipality failed to honour payment hence they are suing the municipality.
Instituting Attorneys:	In-house
Prospects of success:	There are no prospects of successfully defending the matter, hence the municipality is in the process of negotiating for a settlement of the matter.
Estimated costs:	R134 315.30
Party:	New team construction
Nature/description:	New team construction rendered excavation services to the municipality in 2011 and the municipality has not paid them for services rendered hence they are suing the municipality.
Instituting Attorneys:	In-house
Prospects of success:	There are no prospects of successfully defending the matter, hence the municipality is in the process of negotiating for a settlement of the matter.
Estimated costs:	R1 356 000
Party:	AAS kitso t/a SF cc
Nature/description:	AAS kitso t/a SF cc supplied and delivered cleaning material to the municipality and the municipality failed to honour payment hence they are suing the municipality.
Instituting Attorneys:	In-house
Prospects of success:	There are no prospects of successfully defending the matter, hence the municipality is in the process of negotiating for a settlement of the matter.
Estimated costs:	R30 000
Party:	V Mokgosi
Nature/description:	Vincent Mokgosi was appointed by the municipality as the Manager in the office of the Mayor. The employee's contract of employment was terminated when the Mayor vacated his office in 2011. He alleges that he was unfairly dismissed hence instituted a labour dispute with the labour court.
Instituting Attorneys:	JC Burger Attorneys
Prospects of success:	There are no prospects of successfully defending the matter, hence the municipality is in the process of negotiating for a settlement of the matter.
Estimated costs:	R600 000
Party:	B Mcdermott
Nature/description:	B Mcdermott lodged a dispute with SALGBC after municipality failed to encash his leave days despite having given another employee during same period leave encashment hence he is suing the municipality.
Instituting Attorneys:	In-house
Prospects of success:	There are no prospects of successfully defending the matter and payment has not been effected.
Estimated costs:	R120 000

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

2014

2013

### 17. Provisions (continued)

Party:	Clover SA vs NLM
Nature/description:	Clover SA paid the municipality for transfer of certain land in their name. Excess payment was made and the municipality failed to refund them hence they are suing the municipality.
Instituting Attorneys:	Cornelius & Vennote Inc
Prospects of success:	There are no prospects of successfully defending the matter, hence the municipality settled the matter and payment has not been effected yet.
Estimated costs:	R23 000
Party:	Isintu Projects CC
Nature/description:	Isintu projects rendered meter reading services to the municipality in 2011 and the Municipality has not paid them for services rendered hence they are suing the municipality.
Instituting Attorneys:	In-house
Prospects of success:	There are no prospects of successfully defending the matter, hence the municipality settled the matter and payment has not been effected yet.
Estimated costs:	R233 869.98
Party:	A Vosloo
Nature/description:	Adriaan Vosloo applied for the clearance certificates after he sold his property and the municipality failed to provide the certificates.
Instituting Attorneys:	ADW van den Berg attorneys
Prospects of success:	There are no prospects of successfully defending the matter, hence the municipality settled the matter and payment has not been effected yet.
Estimated costs:	R38 000
Party:	Phonebook Company
Nature/description:	Phonebook company rendered advertisement services on behalf of the municipality and the municipality failed to pay as agreed.
Instituting Attorneys:	In-house
Prospects of success:	There are no prospects of successfully defending the matter, hence the municipality settled the matter and payment has not been effected yet.
Estimated costs:	R68 000
Party:	EG Majiedt Inc
Nature/description:	EG Majiedt Inc effected transfers on behalf of their clients. They erroneously paid the municipality twice for one transaction of clearance certificates. Municipality allegedly neglected to refund them the said erroneously paid amount.
Instituting Attorneys:	EG Majiedt Inc
Prospects of success:	There are no prospects of successfully defending the matter.
Estimated costs:	R73 000
Party:	DDP Valuers
Nature/description:	The municipality effected payment on previous settlement, but allegedly did not pay for the interest on this amount.
Instituting Attorneys:	Symington, De Kock, Coetzer & Partners
Prospects of success:	There are no prospects of defending the matter
Estimated costs:	R36 736
Party:	Stolen Believes
Nature/description:	Stolen Believes sold and delivered certain properties to the municipality and the municipality failed to effect payment.
Instituting Attorneys:	In-house
Prospects of success:	There are no prospects of successfully defending the matter, hence the municipality settled the matter and effected payment.
Estimated costs:	R32 229.16

### **2012/2013**

Instituting Attorneys: Motaung's Attorneys  
Nature: Outstanding payment – supply of PPE clothing  
Estimated costs: R33 000

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

2014

2013

### 17. Provisions (continued)

Instituting Attorneys: Jansen Attorney

Nature: Outstanding payment as results of transfers - civil

Estimated costs: R23 000

Instituting Attorneys: Steyn Lyell Maeyane

Nature: Outstanding payment goods sold & delivered-civil

Estimated cost: R23 000

Instituting Attorneys: Symington & De Kock

Nature: Notice of motion- Illegal transfer of property

Estimated cost: R80 000

Instituting Attorneys: Maqubung attorneys

Nature: Outstanding payment for services rendered

Estimated cost: R230 000

Instituting Attorneys: Breytenbach Mavuso inc

Nature: Damage to infrastructure

Estimated cost: R20 000

Instituting Attorneys: Kriek & van Wyk

Nature: R234 000

Estimated cost: Outstanding payment for services rendered

Instituting Attorneys: Naudes

Nature: Notice of motion- clearance certificate application

Estimated cost: R38 000

Instituting Attorneys: Gouws Vertue & assistant

Nature: Outstanding payment goods sold & delivered

Estimated cost: R55 252

Instituting Attorneys: No attorney appointed to defend the matter

Nature: Outstanding payment for services rendered for subscription fee on advertising services

Estimated cost: R68 000

Instituting Attorneys: CLH Vertue

Nature: Outstanding payment for services rendered

Estimated cost: R23 000

Instituting Attorneys: Cornelius & Vennote inc

Nature: Damages suffered due to power failure (delict)

Estimated cost: R30 000

Instituting Attorneys: Hardam and associates incorporated

Nature: Vehicle Damage as a result of a pothole

Estimated cost: R62 000

Instituting Attorneys: EG majiedt inc

Nature: Refund after erroneously paid money to the municipality

Estimated cost: R69 500

Instituting Attorneys: Anne marie van der Schuff

Nature: Unfair dismissal & unfair labour practice

Estimated cost: R 4 000

Instituting Attorneys: In-house

Nature: Unfair labour practice

Estimated cost: R28 024.8

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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Figures in Rand	2014	2013
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### 17. Provisions (continued)

Instituting Attorneys: Moshaba & Moshwana inc  
Nature:  
Estimated cost:R 567 000

Instituting Attorneys: No information available  
Nature:none available  
Estimated cost:R25 000

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>18. Other financial liabilities</b>		
<b>At amortised cost</b>		
DWA loan	-	30 544
Loans DBSA	8 633 708	15 182 705
INCA loan 1	652 461	671 534
INCA loan 2	19 074	35 080
	<b>9 305 243</b>	<b>15 919 863</b>
<b>Total other financial liabilities</b>	<b>9 305 243</b>	<b>15 919 863</b>
<b>Non-current liabilities</b>		
At amortised cost	9 305 243	15 919 863
<b>Minimum lease payments due</b>		
- within one year	671 534	2 703 390
- in second to fifth year inclusive	-	(2 070 000)
- later than five years	-	38 144
	<b>671 534</b>	<b>671 534</b>
<b>19. Long service awards</b>		
Movement for the year	12 019 000	10 478 000

Ngwathe offers bonuses for every 5 years of completed service from 5 years to 45 years. Below we outline the benefits awarded to qualifying employees.

Completed service (Years)	Long Service Bonus Awards	Determination of cash bonus
5	5 days accumulative leave + 2% of annual salary	$(5/250^* + 2\%) \times \text{annual salary}$
10	10 days accumulative leave + 3% of annual salary	$(10/250^* + 3\%) \times \text{annual salary}$
15	15 days accumulative leave + 4% of annual salary	$(15/250^* + 4\%) \times \text{annual salary}$
20	15 days accumulative leave + 5% of annual salary	$(15/250^* + 5\%) \times \text{annual salary}$
25, 30, 35, 40, 45	15 days accumulative leave + 6% of annual salary	$(15/250^* + 6\%) \times \text{annual salary}$

\*A day of accumulated leave worth leave is worth 1/250 of annual salary

Long service accumulated leave must be taken within one year of receiving such leave or may be wholly or partially cashed. Ngwathe advised that in most cases, employees choose to exercise the option to wholly convert their accumulative leave bonus days into cash.

The portion of the bonus that is a percentage of annual salary is awarded within the month following the employee attaining the qualifying completed years of service.

Valuation of assets

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand 2014 2013

### 19. Long service awards (continued)

The long service leave award liability of the municipality is unfunded. No dedicated assets had been set aside to meet this liability.

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

Carrying value

Present value of the defined benefit obligation	<u>11 573 000</u>	<u>2 113 000</u>
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Changes in the present value of the defined benefit obligation are as follows:

Balance at beginning of year	11 183 000	8 640 000
Current-service cost	1 780 000	1 206 000
Interest cost	769 000	681 000
Actuarial (Gain)/Loss	(1 151 000)	(762 000)
Employer Benefit Payments	<u>1 008 000</u>	<u>1 418 000</u>
Balance at end of year	<u>11 573 000</u>	<u>11 183 000</u>

Net expenses recognised in the statement of financial performance

Total liability	1 780 000	1 206 000
Value of asset	769 000	681 000
Value of asset	<u>(1 008 000)</u>	<u>1 418 000</u>
Unfunded liability	<u>1 541 000</u>	<u>11 573 000</u>

Key Assumptions Used

Assumptions used at the reporting date:

Discount Rate	8.37%	7.25%
Consumer price inflation	6.21%	6.25%
Salary increase rate	7.21%	7.15%
Net Effective Discount rate	1.08%	0.09%

The effect of 1% p.a. change in the normal salary inflation assumption as follows:

	<b>One percentage</b>	
	Increase	Decrease
Tota accrued liability	12 092 000	10 377 000
Current service cost	2 790 000	2 338 000

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

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>19. Long service awards (continued)</b>		
The interest cost is based on the discount rate assumption for the current valuation which is based on one point on the curve.		
The amounts for the current annual reporting period and previous reporting period:		
	30-Jun-14	30-Jun-13
Present value of obligation	11 573 000	11 183 000
<b>20. Revenue</b>		
Interest received	30 358 836	21 442 747
Other income	1 628 684	1 637 293
Property rates	42 923 014	48 722 964
Rental of facilities and equipment	311 215	2 290 614
Service charges	315 690 954	256 291 158
Government grants & subsidies	147 282 325	202 258 568
Fines	826 390	1 096 771
	<b>539 021 418</b>	<b>533 740 115</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	315 690 954	256 291 158
Rental of facilities and equipment	311 215	2 290 614
Other income	1 628 684	1 637 293
Interest received - investment	30 358 836	21 442 747
	<b>347 989 689</b>	<b>281 661 812</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Property rates	42 923 014	48 722 964
<b>Transfer revenue</b>		
Government grants	147 282 325	202 258 568
Fines	826 390	1 096 771
	<b>191 031 729</b>	<b>252 078 303</b>
<b>21. Service charges</b>		
Sale of electricity	126 135 803	132 623 632
Sale of water	134 473 678	67 637 565
Sewerage and sanitation charges	25 997 562	30 204 555
Refuse removal	29 083 911	25 691 592
	<b>315 690 954</b>	<b>256 157 344</b>
<b>22. Other income</b>		
Auction fees	46 910	84 421
Administration fees	1 848	2 272
Building plans and inspections	102 900	86 336
Clearance certificates	77 875	68 157
Grave plots	698 417	629 323
Reconnection / connection fees	248 769	288 358
Sundry income	451 965	568 904
	<b>1 628 684</b>	<b>1 727 771</b>

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>23. Interest received</b>		
<b>Interest revenue</b>		
Other financial asset	2 057 449	1 434 724
Interest charged on trade and other receivables	28 301 387	20 008 023
	<b>30 358 836</b>	<b>21 442 747</b>

The amount included in Investment revenue arising from exchange transactions amounted to R 28 301 387. (2013: R20 008 023)

### 24. Property rates

#### Rates received

Residential	-	28 134 546
Business / Industrial / Commercial	-	8 231 008
Government	-	6 161 477
Public Benefit Organisations	74 854 161	464 209
Agriculture	-	27 450 265
Public Service Infrastructure	-	45 404
Schools	-	1 066 247
Vacant stands - residential	-	3 818 517
Other	-	2 316 338
Customer incentive	(31 931 147)	(28 965 047)
	<b>42 923 014</b>	<b>48 722 964</b>

#### Valuations

Agriculture	-	3 023 046 501
Business / Industrial / Commercial	-	473 538 571
Government	-	259 293 001
Public Benefit Organisations	-	49 166 000
Public Service Infrastructure	-	4 560 000
Residential	-	2 949 214 814
Schools	-	45 164 000
Vacant stands residential	-	419 292 100
	-	<b>7 223 274 987</b>

	2014 Cents per Rand	2013 Cents per Rand
<b>Parys</b>		
Agriculture		0.0089
Business / Industrial / Commercial		0.0167
Government		0.0222
Public Service Infrastructure		0.0089
Residential	0.0723	0.0089
Schools	0.0723	0.0222
Vacant Stands Residential		0.0089
<b>Heilbron</b>		
Agriculture	0.0089	0.0089
Business / Industrial / Commercial	0.0167	0.0167
Government	0.0222	0.0222
Public Service Infrastructure	0.0089	0.0089
Residential	0.0089	0.0089



# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>24. Property rates (continued)</b>		
Schools	0.0222	0.0222
Vacant Stands Residential	0.0089	0.0089
Vredefort		
Agriculture	0.0089	0.0089
Business / Industrial / Commercial	0.0167	0.0167
Government	0.0222	0.0222
Public Service Infrastructure	0.0089	0.0089
Residential	0.0089	0.0089
Schools	0.0222	0.0222
Vacant Stands Residential	0.0089	0.0089
Koppies		
Agriculture	0.0089	0.0089
Business / Industrial / Commercial	0.0167	0.0167
Government	0.0222	0.0167
Public Service Infrastructure	0.0089	0.0089
Residential	0.0089	0.0089
Schools	0.0222	0.0222
Vacant Stands Residential	0.0089	0.0089
Edenville		
Agriculture	0.0089	0.0089
Business / Industrial / Commercial	0.0167	0.0167
Government	0.0222	0.0222
Public Service Infrastructure	0.0089	0.0089
Residential	0.0089	0.0089
Schools	0.0222	0.0222
Vacant Stands Residential	0.0089	0.0089

## 25. Government grants and subsidies

Equitable share	143 172 000	153 983 000
Other grants	1 890 000	385 182
Municipal Infrastructure grant (MIG)	-	41 551 382
Government grant (operating) 4	670 325	-
Integrated national electrification programme (INEG)	-	4 387 958
Local government SETA (LGSETA)	-	275 675
Financial Management Grant (FMG)	1 550 000	1 615 475
	<b>147 282 325</b>	<b>202 198 672</b>

### Conditional and unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	48 215 672	202 198 672
Unconditional grants received	-	153 983 000
	<b>48 215 672</b>	<b>356 181 672</b>

### Equitable share

Equitable share was received in terms of section 214(1) of the Constitution (Act no 108 of 1996). Households receive 6kl water, 50kWh electricity and basic sewer per month plus 4 kl water, additional sewer, refuse and R60 per month on rates to approved indigents.

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>25. Government grants and subsidies (continued)</b>		
<b>INEG</b>		
Balance unspent at beginning of year	-	7 436 062
Conditions met - transferred to revenue	22 100 000	(4 387 958)
Other	-	(3 048 104)
	<u>22 100 000</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 16).		
In terms of the Constitution, the purpose of the grant is the electrification of municipal infrastructure.		
<b>Other grants (including MSIG and EPWG)</b>		
Balance unspent at beginning of year	4 563 104	3 211 236
Current-year receipts	-	1 737 050
Conditions met - transferred to revenue	-	(385 182)
	<u>4 563 104</u>	<u>4 563 104</u>
Conditions still to be met - remain liabilities (see note 16).		
Provide explanations of conditions still to be met and other relevant information.		
<b>MIG</b>		
Balance unspent at beginning of year	24 097 626	17 878 904
Current-year receipts	-	50 441 000
Conditions met - transferred to revenue	-	(41 551 382)
Other	47 889 000	(2 670 896)
	<u>71 986 626</u>	<u>24 097 626</u>
Conditions still to be met - remain liabilities (see note 16).		
The grant is received for the purpose of improving the infrastructure of assets within the municipality.		
<b>Department of Water Affairs and Forestry</b>		
Balance unspent at beginning of year	<u>3 762 503</u>	<u>3 762 503</u>
Conditions still to be met - remain liabilities (see note 16).		
The purpose of the grant is to subsidise and build capacity in water schemes operated within the municipality..		
<b>LGSETA</b>		
Balance unspent at beginning of year	2 199 345	1 120 057
Current-year receipts	-	1 354 964
Conditions met - transferred to revenue	-	(275 676)
	<u>2 199 345</u>	<u>2 199 345</u>
Conditions still to be met - remain liabilities (see note 16).		
The purpose of the grant is to provide training for all employees at the Municipality through an accredited service provider.		

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>25. Government grants and subsidies (continued)</b>		
<b>FMG</b>		
Balance unspent at beginning of year	1 009 537	1 285 012
Current-year receipts	-	1 500 000
Conditions met - transferred to revenue	-	(1 615 475)
Other	65 159	(160 000)
	<b>1 074 696</b>	<b>1 009 537</b>
Conditions still to be met - remain liabilities (see note 16).		
The municipality received the Financial Management Grant from National Treasury. It is used for capacity building and assistance to financial services to improve service delivery.		
<b>26. Employee related costs</b>		
Basic salary	101 014 551	82 169 702
Bonus	8 916 896	15 542 740
Car allowance	5 006 231	4 698 027
Housing benefits and allowances	281 166	275 616
Leave pay provision charge	4 164 604	9 148 146
Medical aid- company contributions- includes councillors	7 396 738	5 967 138
Other allowances	8 593 545	6 668 654
Other payroll levies	3 145 783	2 287 523
Overtime payments	17 010 172	16 161 176
Post-employment benefits - Pension	17 338 735	29 824 164
UIF	1 223 131	964 441
	<b>174 091 552</b>	<b>173 707 327</b>
<b>Remuneration of Adv TS Mokoena - Municipal Manager (01/07/2012 - 30/06/2013)</b>		
Annual Remuneration	645 547	680 002
Car Allowance	161 691	167 106
Contributions to UIF, Medical and Pension Funds	1 635	1 713
	<b>808 873</b>	<b>848 821</b>
<b>Remuneration of AT Hlongwane - Acting Chief Finance Officer(01/05/2014 - 30/06/2014)</b>		
Annual Remuneration	541 210	-
Car Allowance	185 467	-
Contributions to UIF, Medical and Pension Funds	14 684	-
Acting allowance	14 433	-
	<b>755 794</b>	<b>-</b>
<b>Remuneration of LD Kamolane - Acting Municipal Manager(30/06/2014)</b>		
Acting Allowance	5 259	-
	<b>5 259</b>	<b>-</b>
<b>Remuneration of Mr OL Leeuw - Chief Finance Officer (01/03/2013 - 30/06/2013)</b>		
Annual Remuneration	506 192	246 875
Car Allowance	159 257	79 689
Contributions to UIF, Medical and Pension Funds	1 487	3 226
	<b>666 936</b>	<b>329 790</b>

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>26. Employee related costs (continued)</b>		
<b>Remuneration of Mr TG Mkhuma - Acting Chief Financial Officer (01/07/2012 - 28/02/2013)</b>		
Annual Remuneration	-	178 779
Car Allowance	-	118 796
Contributions to UIF, Medical and Pension Funds	-	44 971
	<u>-</u>	<u>342 546</u>
<b>Remuneration of Mr LA Marumoa - Acting Director Community Services(01/07/2013-31/07/2013)</b>		
Acting Allowance	<u>3 105</u>	<u>-</u>
<b>Remuneration of Mr KT Malebane - Director Technical services (01/09/2011 - 30/06/2013)</b>		
Annual Remuneration	-	580 079
Car Allowance	-	106 162
Contributions to UIF, Medical and Pension Funds	-	62 683
	<u>-</u>	<u>748 924</u>
<b>Remuneration of Mr HW Coetzer - Director Technical Services (01/10/2013 -30/04/2014)</b>		
Annual Remuneration	457 414	-
Car Allowance	155 478	-
	<u>612 892</u>	<u>-</u>
<b>Remuneration of Mr LD Kamolane - Director Community Services (01/04/2013 - 30/06/2013)</b>		
Annual Remuneration	637 123	197 054
Car Allowance	82 072	-
Contributions to UIF, Medical and Pension Funds	59 578	1 760
	<u>778 773</u>	<u>198 814</u>
<b>Remuneration of Mr NE Shabalala - Director of Technical Services (01/04/2014 - 30/06/2014)</b>		
Annual Remuneration	98 100	-
Car Allowance	32 062	-
Contributions to UIF, Medical and Pension Funds	3 297	-
	<u>133 459</u>	<u>-</u>
<b>Remuneration of Director Corporate Services</b>		
Annual Remuneration	-	628 504
	-	30 803
Car Allowance	-	120 410
Contributions to UIF, Medical and Pension Funds	-	66 087
Other	-	162 000
	<u>-</u>	<u>1 007 804</u>

The salaries paid for the year were not paid within the limits of the SALGA Bargaining Council determinations and resulted an overpayment of salaries to the counillors.

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand 2014 2013

### 26. Employee related costs (continued)

#### Remuneration: Ms LM Bopalamo

Annual Remuneration	646 052	-
Car Allowance	128 823	-
Contributions to UIF, Medical and Pension Funds	45 954	-
	<b>820 829</b>	<b>-</b>

### 27. Remuneration of Councillors

Executive Major	813 432	757 297
Mayoral Committee Members	893 154	832 126
Speaker	357 510	333 422
Councillors	8 020 233	7 123 989
	<b>10 084 329</b>	<b>9 046 834</b>

#### Remuneration of Councillors

2014	Appointment date - Resignation date (if applicable)	Annual remuneration	Allowances	Company contribution	Total
Mochela M	2011/11/01	499 159	202 138	36 831	738 129
Ndayi PR	2000/12/05	370 421	191 711	27 297	589 430
Vandisi TL	2008/02/11	194 493	113 907	14 807	323 207
Serathi M	1995/11/01	194 468	113 906	14 807	323 182
Mandelstam GP	2000/12/05	233 334	75 066	-	308 400
Mopedi NP	2000/12/05	218 356	90 044	15 702	324 103
Schoonwinkel A	2006/03/01	218 356	90 044	15 702	324 103
Oliphant AM	2008/12/03	158 804	71 888	11 420	242 113
Bocibo C	02/06/2011	158 804	71 888	11 420	242 113
Vermaak SM	2006/03/01	157 925	72 767	11 403	242 096
Ndlovu NA	2006/03/01	158 804	71 888	11 420	242 113
Magashule ME	2014/02/26	105 870	55 750	8 340	169 959
Mvulane L	2006/03/01	158 804	71 888	11 420	242 113
Choni SP	2000/12/06	158 804	71 888	11 420	242 113
Khumalo KJ	2011/06/01	158 804	71 888	11 420	242 113
La Cock	2011/05/20 - 2013/12/24	48 416	21 470	-	69 886
Masooa MJ	2011/05/20	158 804	71 888	11 420	242 113
Mbele AM	2007/06/01	158 804	71 888	11 420	242 113
Mehlo LR	2011/05/20	158 802	71 890	11 420	242 113
Radebe DM	2011/05/20	158 804	71 888	11 420	242 113
Ramabitsa IM	2011/05/20	158 804	71 888	11 420	242 113
Ranthako MC	2011/05/20	158 804	71 888	11 420	242 113
Serfontein C	2011/05/01	233 334	75 066	-	308 400
Spence DI	2011/05/20	158 804	71 888	11 420	242 113
Swart AP	2011/05/20	158 804	71 888	11 420	242 113
Tlali LL	2011/05/20	157 963	72 829	11 051	241 844
Modiko DV	2011/05/20	158 804	71 888	11 420	242 113
Mofokeng MM	2011/06/01	157 872	72 821	11 402	242 095
Mofokeng MD	2010/11/01	158 804	71 888	11 420	242 113
Mofokeng LM	2011/06/01	157 787	72 905	11 401	242 094
Sothoane BT	2006/03/01	158 812	71 880	-	230 693
De Beer VE	2011/05/20	158 804	71 888	-	230 693
Van Der Merwe PP	2006/03/01	158 812	71 880	-	230 693
Sothoane CE	2000/12/06	158 812	71 880	-	230 693
Seabi IS	2012/09/01	158 804	71 888	11 420	242 113

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand		2014	2013			
<b>27. Remuneration of Councillors (continued)</b>						
Molaphene PM	2012/09/01	166 280	64 412	-	230 693	
Sehume NA	2013/05/01	169 698	57 396	-	227 095	
Motsumi ME	2012/11/01	159 044	71 648	-	230 693	
F SCHOLTZ	2014/01/10	71 215	32 910	-	104 126	
Hlapane ML	2000/12/06	158 804	71 888	-	230 693	
		<b>2 011 052 792 286 537</b>	<b>i2 792 286 537</b>	<b>3 128 304</b>	<b>372 883</b>	<b>10 084 329</b>

### 2013

Bocibo CN	02/06/2011	143 596	55 923	10 142	209 661	
Choni PS	02/06/2011	143 596	55 923	10 142	209 661	
De Beer	02/06/2011	149 199	60 462	-	209 661	
Hlapane ML	02/06/2011	1 491 984	60 462	-	209 661	
Khumalo KJ	02/06/2011	149 199	60 462	-	209 661	
Kruger S	02/06/2011 - 1t	15 826	6 184	-	22 011	
La Cock PJ	02/06/2011 - 27	138 809	67 184	-	205 993	
Mafume MJ	02/06/2011 - 08	119 388	47 003	8 327	174 717	
Magashule ME	02/06/2011	143 596	55 923	10 142	209 661	
Mankoe MS	01/11/2011 - 20	45 892	19 213	-	65 105	
Mareletse LZ	02/06/2011 - 01	26 848	11 911	-	40 360	
Masooa MJ	02/06/2011	137 342	62 646	9 673	209 661	
Mbele MA	02/06/2011	143 596	55 923	10 142	209 661	
Mehlo LR	02/06/2011	143 596	55 923	10 142	209 661	
Modiko DV	02/06/2011	143 596	55 923	10 142	209 661	
Mofokeng DM	02/06/2011	149 199	60 459	-	209 659	
Mofokeng ML	02/06/2011	143 596	55 923	10 142	209 661	
Mofokeng MM	02/06/2011	143 599	55 919	10 142	209 661	
Molaphene PP	10/12/2012	123 862	50 885	-	174 717	
Molotsane RJ	02/06/2011 - 25	10 673	4 803	800	16 276	
Motsumi ME	02/06/2011	103 307	41 249	-	144 555	
Mvulane LS	02/06/2011	137 342	62 646	9 673	209 661	
Ndlovu NA	02/06/2011	143 596	55 923	10 142	209 661	
Oliphant AM	02/06/2011	143 596	55 923	10 142	209 661	
Radebe DM	02/06/2011	137 342	62 646	9 673	209 661	
Ramabitsa IM	02/06/2011	137 342	62 646	9 673	209 661	
Renthako MC	02/06/2011	143 596	55 923	10 142	209 661	
Seabi IM	01/08/2012	123 862	50 855	-	174 717	
Sehume NA	08/03/2013	24 208	8 620	-	32 828	
Spence D	02/06/2011	143 596	55 923	10 142	209 661	
Swart AP	02/06/2011	149 199	60 462	-	209 661	
Tlali LL	02/06/2011	143 596	55 923	10 142	209 661	
Van der Merwe PP	02/06/2011	149 199	60 459	-	209 657	
Vermaak SM	02/06/2011	147 478	55 923	10 562	213 963	
Vothoane EC	02/06/2011	142 027	60 459	-	202 485	
Other		-	-	-	834 065	
		<b>5 676 360</b>	<b>5 676 360</b>	<b>1 764 604</b>	<b>190 227</b>	<b>7 123 989</b>

### 28. Fair value adjustments

Investments	107 481	105 339
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### 29. Depreciation and amortisation

Property, plant and equipment	101 495 200	97 194 922
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### 30. Finance costs

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>30. Finance costs (continued)</b>		
Interest on loans	1 817 390	3 272 364
Bank interest	9 578	1 451
	<b>1 826 968</b>	<b>3 273 815</b>
<b>31. Bulk purchases</b>		
Electricity	136 794 200	118 254 342
Water	12 896 122	10 611 181
	<b>149 690 322</b>	<b>128 865 523</b>
<b>32. Contracted services</b>		
Security services	1 033 694	1 320 238
Specialist Services	2 352 457	5 694 054
Other Contractors	1 290 370	1 492 227
	<b>4 676 521</b>	<b>8 506 519</b>
Specialist services		
Security services	<u>2 352 457</u>	<u>2 352 457</u>
<b>Other contractors</b>		
Cash security	6 000	6 000
Cleaning services	1 738 229	1 738 229
Electricity pre paid service	4 924 394	4 924 394
Disconnection and re-connection of services	117 567	117 567
Printing services	1 326 704	1 326 704
Delivery of summonses/traffic fines	<u>1 847 977</u>	<u>1 847 977</u>
	<b>9 960 871</b>	<b>9 960 871</b>

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>33. General expenses</b>		
Advertising	677 116	369 591
Arts and culture markets	44 198	31 614
Auditors remuneration	1 993 666	1 398 701
Bank charges	848 593	868 174
Cleaning	908 408	492 382
Commission paid	2 648 286	76 067
Consulting and professional fees	-	3 500 736
Delivery expenses	(877)	436 661
Discount allowed	160 218	41 182
Donations	732 952	595 111
Entertainment	77 658	188 416
Hire	5 665 053	914 394
Insurance	2 633 380	2 691 944
Community development and training	1 866 418	3 098 321
IT expenses	126 036	42 500
Lease rentals on operating lease	2 845 818	2 215 695
Marketing	86 886	4 089
Horticulture	2 206 358	1 295 735
Promotions and sponsorships	301 000	305 693
Packaging	97 610	148 680
Fuel and oil	2 629 215	3 234 169
Postage and courier	1 493 394	1 166 730
Printing and stationery	2 101 001	1 899 208
Protective clothing	291 566	814 373
Project maintenance costs	1 995 689	19 130
Security (Guarding of municipal property)	2 424 839	4 380 851
Software expenses	102 160	147 814
Staff welfare	77 530	137 701
Subscriptions and membership fees	849 080	882 450
Telephone and fax	3 101 653	2 882 290
Transport and freight	530 560	475 720
Training	1 017 154	1 527 462
Refuse	-	8 218 441
Title deed search fees	2 984 722	(370)
Accommodation cost	528 638	492 392
Upgrading of pump station	28 636 387	34 133 647
Rehabilitation cost - landfill	-	9 591 051
Youth development	349 007	282 853
Employee wellness	140 615	224 239
Water losses	-	233 717
Billing charges	31 618	-
Chemicals	7 401 298	5 964 421
Bad debts- indigents	43 330 759	59 460 672
Other expenses	4 880 494	9 690 749
	<b>128 816 156</b>	<b>164 575 396</b>
<b>34. Auditors' remuneration</b>		
Fees	1 993 666	1 398 701
<b>35. Rental of facilities and equipment</b>		
<b>Facilities and equipment</b>		
Rental of facilities	311 215	2 290 614



# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>36. Cash generated from operations</b>		
Deficit	(52 010 286)	(73 482 614)
<b>Adjustments for:</b>		
Depreciation and amortisation	101 495 200	97 194 922
Fair value adjustments	(107 480)	(105 339)
Movements in provisions	(9 591 051)	13 091 788
<b>Changes in working capital:</b>		
Inventories	18 660	93 618
Sundry Debtors	(136 724)	(128 168)
Receivables from non-exchange transactions	(24 015 300)	(81 254 582)
Other non-cash items	(122 561 037)	(275 540)
Payables from exchange transactions	81 366 479	55 694 014
VAT	(32 165 073)	(10 506 097)
Unspent conditional grants and receipts	70 054 159	938 341
Consumer deposits	710 541	298 647
Long service awards	-	18 612 000
	<b>13 058 088</b>	<b>20 191 033</b>
<b>37. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Not yet contracted for and authorised by accounting officer</b>		
• Investment property	-	40 872 092
This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.		
<b>38. Prior period errors</b>		
1. Restatement of error		
Long service accrual		
Accruals, accumulated depreciation and employee expenses are understated due to no accrual being raised in previous years for employees qualifying for long service awards.		
The comparative statements for 2013 have been restated. The effect of the restatement is summarised below:		
2. Items were erroneously accounted for in repairs and maintenance in the 2013 financial period. The corrections were processed and the effect of the changes was as follows:		
<b>Statement of Financial Position</b>		
Increase in property, plant and equipment	-	104 923 236
Increase in Payables	-	(8 640 000)
Decrease in Accumulated Surplus	-	7 173 000
	-	<b>103 456 236</b>
<b>Statement of Financial Performance</b>		
Decrease in Expenses	-	(104 923 236)
Increase in Employee costs	-	1 467 000
	-	<b>(103 456 236)</b>
<b>39. Contingencies</b>		
SALGA Wage Curve Agreement		

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

2014

2013

### 39. (continued)

As a result of the uncertainties arising from the dispute declared by the unions and the pending litigation regarding the wage curve agreement, the municipality may have an additional receivable/ payable for employee wages, depending on the outcome of the pending litigation. It is not practicable to reliably estimate the amount of this receivable/ payable prior to the outcome of the pending litigation.

#### Contingent liabilities

##### Department of Water Affairs

The municipality was summonsed for the payment on outstanding invoices for water supplied. The municipality do not agree with the outstanding amount due to the department and noted that some of the debt should have lapsed as it related debt from ten years ago. The municipality lodged a formal dispute which will require necessary investigations by both parties.

##### Department of Environmental Affairs and Tourism

The contingency disclosed for the Department of Environmental Affairs and Tourism pertains the possible fines that can be imposed on the municipality if it is found to have contravened or failed to comply with the National Environmental Management: Waste Act, 2008 as a result of the municipality having managed landfill sites without required permits. Consequently, the municipality will be liable to a fine not exceeding R10 000 000 (2012: R10 000 000) in terms of Section 68(1) of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008) or to imprisonment for a period not exceeding 10 years for any person convicted of the offence, in addition to any other penalty or award that may be imposed or made in terms of the National Environmental Management Act.

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

2014

2013

### 39. (continued)

#### Legal contingencies

##### 2013/2014

**Party:** Jicama 167 CC t/a AAS Operations vs NLM

**Nature:** Outstanding payment: chemicals and chemical container

**Amount :** R 1536.44

**Instituting Attorneys:** Gous Vertue & Associates

**Party:** CA Claassens & A Claasens vs NLM

**Nature:** Damages as a result of runaway fire

**Amount:** R 2 000 000

**Instituting Attorneys:** Podbielski incorporated

**Party :** Rankakhakile Jona Mohohlo vs NLM

**Nature:** Vehicle damage as a result of a potholes

**Amount:** R 16 994.32

**Instituting Attorneys:** Smook & Lamprecht attorneys

**Party:** Sarah Sebolawe Sekgalolo vs NLM

**Nature:** Outstanding amount on payment of awarded tender

**Amount:** R2 013 579.9

**Instituting Attorneys:** Mapholoane Attorneys

**Party:** Ensemble trading 2053 CC vs NLM

**Nature:** Storage costs

**Amount:** R1 629 072

**Instituting Attorneys:** Tsebeng attorneys

**Party:** Vaal river development association vs NLM

**Nature:** Application in terms of S159 of the constitution

**Amount:** R 1 500 000

**Instituting Attorneys:** Greek and van Wyk

**Party:** TJ Mokoena vs NLM

**Nature:** Unlawful, irregular and wasteful expenditure costs by municipal official

**Amount:** R 120 000

**Instituting attorneys:** None

**Party:** SAMWU obo Manentza

**Nature:** labour appeal matter on unfair dismissal

**Amount:** R 180 000

**Instituting attorneys:** None

**Party:** Telkom vs NLM

**Nature:** Damage to telkom infrastructure.

**Amount:** R 240 420

**Instituting attorneys:** None

**Party:** SAMWU obo Hlapane

**Nature:** Interpretation \ application of collective agreement

**Amount:** R 400 000

**Instituting attorneys:** None

**Party:** Busisiwe Mtimkulu vs NLM

**Nature:** Unfair dismissal

**Amount:** R 269 000

**Instituting attorneys:** MJ Mofephe

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# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

2014

2013

### 39. (continued)

**Party:** J Senoamali & M Madondo

**Nature:** Unfair dismissal

**Amount :** R 350 000

**Instituting attorneys:** W.Nolte Attorney & M Mothiba

**Party:** CJ de la Rey

**Nature:** Damage caused by power failure

**Amount:** R29 000

**Instituting attorneys:** Kriek & van Wyk

**Party:** NLM vs State

**Nature:** Water spillage in Vredeford

**Amount:** R 149 000

**Instituting attorneys:** None

**Party:** NLM vs JD Engelbrecht

**Nature:** Spoiliation order

**Amount:** R 32 000

**Instituting attorneys:** None

**Party:** NLM vs GH Manoto

**Nature:** Damages to a house and furniture caused by fire which could not be extinguished on time.

**Amount:** R 507 879.58

**Instituting attorneys:** Saunders venter van der Watt attorney

**Party:** NLM vs Sedgars

**Nature:** outstanding payment

**Amount:** R 139 203.98

**Instituting attorneys:** De wet Lyell Nel & Maeyane attorneys

**Party:** GC Van Zyl vs NLM

**Nature:** Damages to movable properties caused by power outage

**Amount:** R44 019.87

**Instituting attorneys:** Thabo Grimbeek Inc attorneys

**Party:** NLM vs Jigama 167 CC t/a AAS Operations

**Nature:** Outstanding payment

**Amount:** R1 536.44

**Instituting attorneys:** Gous Vertue and associates attorneys

**Party:** NLM vs Nashua communications

**Nature:** Outstanding rental payment

**Amount:** R 521 379.57

**Instituting attorneys:** Christo Surtherland attorneys

**Amount:**

### 2013

**Party:**

Anquest Construction Friedself jount Venture

**Nature:**

Anquest Construction joint venture is suing the municipality for breach of contract as a result of terminating the contract on erection of the Fezile stadium.

**Instituting attorneys:**

Werksmans attorneys

**Reason:**

**Party:**

Vaal River Business Forum

**Nature:**

Vaal River Business Forum is suing the municipalti for failing to provide basic water service as provided for in terms of s152 of the constitution of the RSA.

**Instituting attorneys:**

Rampai attorneys

**Reason:**

Despite the municipality's flaws to provide basic services a valid defence is in place.

**Party:**

Mispha

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>39. (continued)</b>		
Nature:	Mispha applied for Emolument Attachment Order (EAO) to be implemented on certain employees of the municipality's salaries in their personal capacities. The municipality did not want to effect deductions as per the court order hence they sue the municipality to implement the court order.	
Instituting attorneys:	Du Toit Mandelstam Attorneys	
Reason:	The municipality's defence is based on the flawed procedures in obtaining the EOA.	
Party:	Nashua t/a Siemens	
Nature:	Nashua t/a Siemans is suing the municipality as a result of the municipality failing to effect payment for alleged rendered services.	
Instituting attorneys:	Moroka attorneys	
Reason:	No basis for this action as the municipality is of the opinion that payment of services has been effected.	
Party:	Leshota	
Nature:	Mr Leshota was allegedly involved in a motor vehicle accident which allegedly caused by the failure of the municipality to put up stop signs.	
Instituting attorneys:	In-house	
Reason:	The municipality cannot be held delictually liable for such accident.	
Party:	GC van Zyl	
Nature:	There have been power failures at complainants place and as a result certain properties of the complainant were damaged when power was restored.	
Instituting attorneys:	ADW van Den Berg Attorneys	
Reason:	The municipality cannot be held delictually liable for failure of plaintiff to insure his movable properties.	
Party:	Masilela	
Nature:	Masilela rendered legal services on behalf of the municipality until 2011 and the municipality allegedly failed to effect payment for such legal services hence he is suing the municipality.	
Instituting attorneys:	In-house	
Reason:	The attorney made unsubstantiated claims in previous law suits, resulting in rejection of claims and in some instances the claims had already been paid.	
Party:	P Du Plessis	
Nature:	The allegation is that the municipality neglected to secure a trench dug by them, the complainant fell into it and suffered damages.	
Instituting attorneys:	In-house	
Reason:		
Party:	Coetzer AM	
Nature:	The complainants vehicle was badly damaged after driving into an urban area road allegedly full of potholes.	
Instituting attorneys:	In-house	
Reason:	Due to contributory negligence the municipality cannot be held liable for any losses.	
Party:	LR Grobler	
Nature:	Power failures at the complainants property occurred, as a result certain items on the property were damaged when power was restored.	
Instituting attorneys:	In-house	
Reason:	The municipality cannot be held liable due to the plaintiffs failure to insure his movable properties.	
Party:	T Swart	
Nature:	The complainants vehicle was badly damaged after driving into an urban area road allegedly full of potholes.	
Instituting attorneys:	In-house	
Reason:	Due to contributory negligence the municipality cannot be held liable for any losses.	
Party:	Erica Scotton	

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>39. (continued)</b>		
Nature:	As a result of allegedly non-availability of a stop sign, the plaintiff had a motor vehicle accident.	
Instituting attorneys:	In-house	
Reason:	The municipality cannot be held delictually liable for such accident.	
Party:	JB Muller	
Nature:	Due to underground waterpipes which burst allegedly causing complainant's house to flood resulted in damages to her furnisher, hence she is claiming from the municipality for her losses.	
Instituting attorneys:	Kriek & Van Wyk Attorneys	
Reason:	The municipality cannot be held delictually liable for such accident.	
Party:	CJ de la Rey	
Nature:	Power failures at the complainants property occurred, as a result certain items on the property were damaged when power was restored.	
Instituting attorneys:	In-house	
Reason:	The municipality cannot be held liable du to the plaintiffs failure to insure his movable properties.	
Party:	Smadondo & J Sinaomadi	
Nature:	The plaintiffs alleged that they were unfairly dismissed from the municipality, after being appointed as officials in the PMU section of Technical services on a fixed term, which ended by effluxion of time.	
Instituting attorneys:	Ponoane attorneys	
Reason:	The employment was on contract base and ended on effluxion of time.	
Party:	Busiwe Mthimkulu	
Nature:	The plaintiff allege that she was unfairly dismissed from the municipality after being appointed in the office of the Speaker on a fixed term. The term of contracts ended by effluxion of time.	
Instituting attorneys:	JC Burger attorneys	
Reason:	The employment was on contract base and ended on effluxion of time.	
Party:	SAMWU obo Hlapane & others	
Nature:	The municipality allegedly failed to honour collective agreement, hence SAMWE declared a dispute to the labour court to compel the municipality to comply with the order.	
Instituting attorneys:	ADW van den Berg attorneys	
Reason:	The municipality partially complied with the award.	
Party:	SAMWU obo Mabona & Mothebe	
Nature:	The municipality allegedly failed to comply with the arbitration award to reimburse the plaintiffs for damages suffered as a result of unlawful suspensions, hence the plaintiffs referred the matter to the labour court to compel the municipality to comply with the award.	
Instituting attorneys:	ADW van den Berg attorneys	
Reason:	The municipality partially complies with the award.	
Party:	SAMWU obo DTR Mosai	
Nature:	SAMWU	
Instituting attorneys:	Shongwe Attorneys	
Reason:	The municipality based the suspension on several acts of misconducts.	
Party:	Mapetla church congregations	
Nature:	The municipality allegedly transferred land to splinter church of Mapetla. Mapetla approached high court to reverse the decision of the municipality to transfer land to the splinter church.	
Instituting attorneys:	Cengcan and Associates	
Reason:	The transparent during the disposal of the said land.	
Party:	Mafunyane Wildlife CC	
Nature:	The complainants vehicle was badly damaged after driving into an urban area road allegedly full of potholes. Hence he is suing the municipality for neglecting to maintain and repair the	

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand 2014 2013

### 39. (continued)

Instituting attorneys: roads.  
 JC Burger attorneys  
 Reason: Due to contributory negligence the municipality cannot be held liable for any losses.

### 40. Related parties

#### Relationships

Councilors interest  
 Check if any councilors have interest  
 Controlled entities Refer to note  
 Joint ventures Refer to note  
 Associates Refer to note

#### Key management information

### 41. Irregular expenditure

Opening balance	15 417 665	13 979 366
Add: Irregular Expenditure - current year	5 409 394	-
Less: Amounts condoned	-	(7 120 624)
Less: Amounts recoverable (not condoned)	-	8 558 923
	<b>20 827 059</b>	<b>15 417 665</b>

#### Details of irregular expenditure not condoned

	Deviation that constitute condoned	
Single quote was sourced from the supplier database, it was an emergency request for Electrical work from the Technical Department	There was a power failure at Vredefort, community did not have access to electricity and due to that deviation was only alternative method to use in order to resolve the problems.	50 525
Single quote was sourced from the supplier database, it was an emergency request for Electrical work from the Technical Department	The formal written quotations process was not followed, i.e. The request was not advertised for 7 days on the notice board and website of the municipality due to the Municipal strike this constitute Emergency Deviation as stipulated on bullet 1.2.2 of the report therefore the cost or expense cannot be recoverable.	43 413
Single quote was sourced from the supplier database, it was an emergency request for Major service work from the Technical Department	1. The formal written quotations process was not followed, i.e. The request was not advertised for 7 days on the notice board and website of the municipality due to the strip, clean and quote type of service on the TLB (DGP 332 FS) this constitute Emergency Deviation as stipulated on bullet 1.2.2 of the report therefore the cost or expense cannot be recoverable.	281 231
Single quote was sourced from the supplier database, it was an emergency request for Major service work from the Technical Department	The formal written quotations process was not followed, i.e. The request was not advertised for 7 days on the notice board and website of the municipality due to the strip, clean and quote type of service on the TLB (DGP 332 FS) this constitute Emergency Deviation as stipulated on bullet 1.2.2 of the report therefore the cost or expense cannot be recoverable.	94 780

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>41. Irregular expenditure (continued)</b>		
Interest paid on late loan re-payment		761 198
Three quotes were sourced from the supplier database, it was an emergency request for sodium hypo chlorite chemicals for purifying water from the Koppies Technical Department.	The request was not advertised on national newspapers, notice board and website of the municipality due nature of cost or expense incurred this constitute Emergency Deviation as stipulated on bullet 1.2.6 of the report therefore the cost or expense cannot be recoverable. Reason for deviation; the chemicals at Koppies were urgently needed in order to purify the water for the community to consume healthy and fresh water.	47 743
Three quotes were sourced from the supplier database, it was an emergency request for Ferric Chloride chemicals for Vredefort water purification from the Technical Department	The formal written quotations process was not followed, i.e. The request was not advertised for 7 days on the notice board and website of the municipality due to the nature of the service this constitute Emergency Deviation as stipulated on bullet 1.2.2 of the report therefore the cost or expense cannot be recoverable.	182 454
Three quotes were sourced from the supplier database, it was an emergency request for Poly-Electrolytes chemicals for Vredefort water purification from the Technical Department	The formal written quotations process was not followed, i.e. The request was not advertised for 7 days on the notice board and website of the municipality due to the nature of the service this constitute Emergency Deviation as stipulated on bullet 1.2.2 of the report therefore the cost or expense cannot be recoverable.	65 094
Single quote was sourced from the supplier database, it was an emergency request for steering pump, filter tank, brakes and leaking pipes service work from the Community Services Department	The formal written quotations process was not followed, i.e. The request was not advertised for 7 days on the notice board and website of the municipality due to the nature of the service this constitute Emergency Deviation as stipulated on bullet 1.2.2 of the report therefore the cost or expense cannot be recoverable.	38 589
Three quotes were sourced from the supplier database, it was an emergency request for micro biological analysis/test for Parys WTW water purification from the Technical Department	The formal written quotations process was not followed, i.e. The request was not advertised for 7 days on the notice board and website of the municipality due to the nature of the service this constitute Emergency Deviation as stipulated on bullet 1.2.2 of the report therefore the cost or expense cannot be recoverable.	37 283
Three quotes were sourced from the supplier database, it was an emergency request for HTH Chips 100*25kg chemicals for Parys water purification from the Technical Department	1. The formal written quotations process was not followed, i.e. The request was not advertised for 7 days on the notice board and website of the municipality due to the nature of the service this constitute Emergency Deviation as stipulated on bullet 1.2.2 of the report therefore the cost or expense cannot be recoverable.	81 122
Three quotes were sourced from the supplier database, it was an emergency request for sodium hypo chlorite chemicals for cleaning water from the Vredefort Technical Department	The chemicals at Parys were urgently needed in order to purify the water for the community to consume healthy and fresh water.	38 532
Single quote was sourced from the supplier database, it was an emergency request for electrical truck service work from the Heilbron Technical Services Department	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service of mechanic workshop in order to overcome the occurrence of deviations on basic related services.	38 920



# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>41. Irregular expenditure (continued)</b>		
Single quote was sourced from the supplier database, it was an emergency request for refuse truck service work from the Community Services Department	The formal written quotations process was not followed, i.e. The request was not advertised for 7 days on the notice board and website of the municipality due to the strip, clean and quote type of service on the Truck (DHP 688 FS) this constitute Emergency Deviation as stipulated on bullet 1.2.2 of the report therefore the cost or expense cannot be recoverable.	168 115
Single quote was sourced from the supplier database, it was an emergency request for refuse truck service work from the Community Services Department	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service of mechanic workshop in order to overcome the occurrence of deviations on basic related services.	182 454
Three quotes was sourced from the supplier database, it was an emergency request for Building Material for EPWP project by Technical Department	The formal written quotations process was not followed, i.e. The request was not advertised for 7 days on the notice board and website of the municipality due to the Municipal strike this constitute Emergency Deviation as stipulated on bullet 1.2.2 of the report therefore the cost or expense cannot be recoverable. The material was urgently needed in order complete the toilet structures.	57 210
Three quotes were sourced from the supplier database, it was an emergency request for micro biological test/analysis at Parys Water Treatment Works because the test were	The formal written quotations process was not followed, i.e. The request was not advertised for 7 days on the notice board and website of the municipality due to the nature of the service this constitute Emergency Deviation as stipulated on bullet 1.2.2 of the report therefore the cost or expense cannot be recoverable.	37 283
Three quotes was sourced from the supplier database, it was an emergency request for Building Material for EPWP project by Technical Department	The chemicals at Koppies were urgently needed in order to purify the water for the community to consume healthy and fresh water.	49 925
The formal written quotations process was not followed, i.e. The request was not advertised for 7 days on the notice board and website of the municipality due to the nature of the service this constitute Emergency Deviation as stipulated on bullet 1.2.2 of the report therefore the cost or expense cannot be recoverable.	The formal written quotations process was not followed, i.e. The request was not advertised for 7 days on the notice board and website of the municipality due to the Municipal strike this constitute Emergency Deviation as stipulated on bullet 1.2.2 of the report therefore the cost or expense cannot be recoverable. The material was urgently needed in order complete the toilet structures.	35 924
Three quotes was sourced from the supplier database, it was an emergency request for Building Material (Toilet Structures) for EPWP project by Technical Department	The formal written quotations process was not followed, i.e. The request was not advertised for 7 days on the notice board and website of the municipality due to the Municipal strike this constitute Emergency Deviation as stipulated on bullet 1.2.2 of the report therefore the cost or expense cannot be recoverable. The material was urgently needed in order complete the toilet structures.	76 095
Three quotes was sourced from the supplier database, it was an emergency request for Arial bundle conductor after several household were left without access to electricity due to heavy rains.	The formal written quotations process was not followed, i.e. The request was not advertised for 7 days on the notice board and website of the municipality due to the power failure caused by heavy rains, this constitute Emergency Deviation as stipulated on bullet 1.2.2 of the report therefore the cost or expense cannot be recoverable.	47 880

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>41. Irregular expenditure (continued)</b>		
Three quotes was sourced from the supplier database, it was an emergency request for Plumbing Material to fix a burst pipe in Parys by Technical Department	There was a pipe burst in Parys and the water was flowing all over the material were urgently needed in order to fix the pipe and stop water loss.	41 391
Three quotes was sourced from the supplier database, it was an emergency request for designing, printing and delivery of finance receipts at Vredefort by Technical Department	The formal written quotations process was not followed, i.e. The request was not advertised for 7 days on the notice board and website of the municipality due to the Municipal strike this constitute Emergency Deviation as stipulated on bullet 1.2.2 of the report therefore the cost or expense cannot be recoverable	98 500
Three quotes was sourced from the supplier database, it was an emergency request for designing, printing and delivery of finance receipts at Vredefort by Technical Department	The paints at Mimosa were urgently needed in order to change phase of the place as part of attracting customers to generate revenue.	128 789
Three quotes were sourced from the supplier database, it was an emergency request for ferric Flocculent chemicals for cleaning at water Koppies Treatment plant Technical Department	The chemicals at Koppies were urgently needed in order to purify the water for the community to consume healthy and fresh water.	172 162
One quote was sourced from the supplier database, it was an emergency request for HT cables after several household were left without access to electricity due to heavy rains.	the community did not have access to electricity due to power failure caused by heavy rains and the material were urgently needed in order to fix the problem.	81 795
Three quotes was sourced from the supplier database, it was an emergency request for cleaning of landfill site at Parys and Vredefort.	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service in order to overcome the occurrence of deviations on basic related services.	38 190
Three quotes were sourced from the supplier database, it was an emergency request for ferric Flocculent chemicals for cleaning at water Koppies Treatment plant Technical Department	The chemicals at Koppies were urgently needed in order to purify the water for the community to consume healthy and fresh water.	172 162
Three quotes was sourced from the supplier database, it was an emergency request for refuse removal truck to collect refuse in Parys	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service in order to overcome the occurrence of deviations on basic related services.	42 750
Three quotes was sourced from the supplier database, it was an emergency request for cleaning of refuse removal truck to collect all refuse at Parys	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service in order to overcome the occurrence of deviations on basic related services.	42 750
Three quotes was sourced from the supplier database, it was an emergency request for refuse removal truck to collect refuse in Parys	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service in order to overcome the occurrence of deviations on basic related services.	42 750
Three quotes was sourced from the supplier database, it was an emergency request for refuse removal truck to collect refuse in Parys	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service in order to overcome the occurrence of deviations on basic related services.	42 750
Three quotes was sourced from the supplier database, it was an emergency request for refuse removal truck to collect refuse in Parys	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service in order to overcome the occurrence of deviations on basic related services.	42 750

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>41. Irregular expenditure (continued)</b>		
Three quotes was sourced from the supplier database, it was an emergency request for tipper trucks to clean to landfill site at Parys (magasyn)	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service in order to overcome the occurrence of deviations on basic related services.	42 750
Three quotes was sourced from the supplier database, it was an emergency request for bulldozer to clean landfill site at Parys (magasyn)	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service in order to overcome the occurrence of deviations on basic related services.	84 741
Three quotes was sourced from the supplier database, it was an emergency request for tipper trucks to clean to landfill site at Parys (magasyn)	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service in order to overcome the occurrence of deviations on basic related services.	101 244
Three quotes was sourced from the supplier database, it was an emergency request for refuse truck to collect refuse in Tumahole	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service in order to overcome the occurrence of deviations on basic related services.	42 750
Three quotes was sourced from the supplier database, it was an emergency request for refuse truck to collect refuse in Tumahole	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service in order to overcome the occurrence of deviations on basic related services. The municipal refuse truck broke down and the refuse truck was urgently needed in order to collect refuse in Tumahole.	42 750
Three quotes was sourced from the supplier database, it was an emergency request for refuse truck to collect refuse in Tumahole	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service in order to overcome the occurrence of deviations on basic related services. The municipal refuse truck broke down and the refuse truck was urgently needed in order to collect refuse in Tumahole.	42 750
Three quotes was sourced from the supplier database, it was an emergency request for refuse truck to collect refuse in Tumahole	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service in order to overcome the occurrence of deviations on basic related services. The municipal refuse truck broke down and the refuse truck was urgently needed in order to collect refuse in Tumahole.	42 750
Three quotes was sourced from the supplier database, it was an emergency request for refuse removal truck to operate at Tumahole	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service in order to overcome the occurrence of deviations on basic related services.'	41 500
Three quotes was sourced from the supplier database, it was an emergency request for Tipper Trucks to operate at Heilbron	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service in order to overcome the occurrence of deviations on basic related services.	47 424
The service provided by FS government Garage for the branding of Municipal Vehicles as the vehicles are leased from them	Reason for deviation, the municipality rented a vehicle from FS government garage for the Hon. Mayor because the vehicle she is using was taken for major services.	54 938

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>41. Irregular expenditure (continued)</b>		
Three quotes was sourced from the supplier database, it was an emergency request for roller to operate at Heilbron	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service in order to overcome the occurrence of deviations on basic related services. The roller was needed in Heilbron in order to fix the road.	31 806
Three quotes was sourced from the supplier database, it was an emergency request for Tipper Trucks to operate at Heilbron	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service in order to overcome the occurrence of deviations on basic related services. The tipper trucks were urgently needed in Heilbron in order to fix the roads.	47 424
Three quotes was sourced from the supplier database, it was an emergency request for building material for EPWP to be used by Technical Services	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service in order to overcome the occurrence of deviations on basic related services. The building material was urgently needed in order to complete the building of toilets in Tumahole.	80 330
Three quotes was sourced from the supplier database, it was an emergency request for food parcel for mayoral poverty alleviation programme	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service in order to overcome the occurrence of deviations on basic related services. The office of the mayor had a programme in Koppies and the ford parcels were urgently needed for that event.	78 300
Three quotes was sourced from the supplier database, it was an emergency request for food parcel for mayoral poverty alleviation programme	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service in order to overcome the occurrence of deviations on basic related services. The office of the mayor had a programme in Heilbron and the ford parcels were urgently needed for that event.	78 300
Three quotes was sourced from the supplier database, it was an emergency request for Tipper Trucks to operate at Parys landfill site	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service in order to overcome the occurrence of deviations on basic related services.	58 368
Three quotes was sourced from the supplier database, it was an emergency request for Tipper Trucks to operate at Tumahole	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service in order to overcome the occurrence of deviations on basic related services. The tipper truck was urgently needed in order to deliver big stones from Tumahole to Land fill site.	73 000
Three quotes was sourced from the supplier database, it was an emergency request for Bull Dozer to operate at Tumahole	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service in order to overcome the occurrence of deviations on basic related services. The tipper truck was urgently needed in order to deliver big stones from Tumahole to Land fill site.	73 000
Three quotes was sourced from the supplier database, it was an emergency request for Tipper Trucks to operate at Heilbron	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service in order to overcome the occurrence of deviations on basic related services. Tipper truck was urgently needed in order to fix the roads in Heilbron.	63 450

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>41. Irregular expenditure (continued)</b>		
Three quotes was sourced from the supplier database, it was an emergency request for Refuse Removal to operate at Parys	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service in order to overcome the occurrence of deviations on basic related services. The municipal refuse truck broke down and the reuse truck was urgently needed in Parys in order to collect refuse.	42 750
Three quotes was sourced from the supplier database, it was an emergency request for Refuse Removal to operate at Tumahole	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service in order to overcome the occurrence of deviations on basic related services. The municipal refuse truck broke down and the reuse truck was urgently needed in Parys in order to collect refuse.	41 500
Three quotes was sourced from the supplier database, it was an emergency request for Front Loader to operate at Parys Landfill site	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service in order to overcome the occurrence of deviations on basic related services. The font end loader was urgently needed in order to operate at Parys land fill site.	34 656
One quotes was sourced from the supplier database, it was an emegency after the employees were affected by niddles and hazadious chemicals	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service in order to overcome the occurrence of deviations on basic related services.	109 500
Three quotes were sourced from the supplier database, it was an emergency request for micro biological test/analysis at Parys Water Treatment Works because the test were required urgently for blue drop assessment.	SCM implemented the strategic procurement process the contract is on place for the period of three years for the said service in order to overcome the occurrence of deviations on basic related services.	34 218
Three quotes was sourced from the supplier database, it was an emergency request for Refuse Removal to operate at Tumahole	The formal written quotations process was not followed, i.e. The request was not advertised for 7 days on the notice board and website of the municipality due to the nature of the service this constitute Emergency Deviation as stipulated on bullet 1.2.2 of the report therefore the cost or expense cannot be recoverable.	45 600
Three quotes was sourced from the supplier database, it was an emergency request for seals of prepaid meter boxes in Parys for the scorpions during cut offs	1.The formal written quotations process was not followed, i.e. The request was not advertised for 7 days on the notice board and website of the municipality due to the nature of the service this constitute Emergency Deviation as stipulated on bullet 1.2.2 of the report therefore the cost or expense cannot be recoverable.	40 050
Three quotes was sourced from the supplier database, it was an emergency request for Refuse Removal to operate at Tumahole	The formal written quotations process was not followed, i.e. The request was not advertised for 7 days on the notice board and website of the municipality due to the nature of the service this constitute Emergency Deviation as stipulated on bullet 1.2.2 of the report therefore the cost or expense cannot be recoverable.	41 500
Three quotes was sourced from the supplier database, it was an emergency request for Refuse Removal to operate at Tumahole	The formal written quotations process was not followed, i.e. The request was not advertised for 7 days on the notice board and website of the municipality due to the nature of the service this constitute Emergency Deviation as stipulated on bullet 1.2.2 of the report therefore the cost or expense cannot be recoverable.	42 750

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>41. Irregular expenditure (continued)</b>		
Three quotes was sourced from the supplier database, it was an emergency request for Refuse Removal to operate at Tumahole	The formal written quotations process was not followed, i.e. The request was not advertised for 7 days on the notice board and website of the municipality due to the nature of the service this constitute Emergency Deviation as stipulated on bullet 1.2.2 of the report therefore the cost or expense cannot be recoverable.	42 750
Three quotes was sourced from the supplier database, it was an emergency request for Bull Dozer to operate at Parys Land fill site	. The formal written quotations process was not followed, i.e. The request was not advertised for 7 days on the notice board and website of the municipality due to the nature of the service this constitute Emergency Deviation as stipulated on bullet 1.2.2 of the report therefore the cost or expense cannot be recoverable.	32 212
		<b>4 997 570</b>

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

#### VAT

VAT receivable	38 571 940	6 406 867
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VAT output payables and VAT input receivables are shown in note 9.

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

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days as at 30 June 2014:

30 June 2014	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
MJ MASOOA	-	(141)	(141)
IM RAMABITSA	-	(24)	(24)
C BOCIBO	-	8 804	8 804
P R NDAYI	-	3 396	3 396
MD MOFOKENG	-	4 567	4 567
M RADEBE	-	166	166
SL MVULANE	-	(198)	(198)
KM SERATI	-	219	219
LR MEHLO	-	1 655	1 655
K J KHUMALO	-	707	707
MM MOFOKENG	-	(207)	(207)
LL TLADI	-	1 228	1 228
M C RANTHAKO	-	1 634	1 634
M MBELE	-	209	209
DL SPENCE	-	586	586
M MOTSUMI	-	80 052	80 052
IM SEABI	-	10 923	10 923
D MOLIKO	-	2 524	2 524
AM OLIPHANT	-	5 037	5 037
J MOLOTSANE	-	27 769	27 769
ML MOFOKENG	-	2 200	2 200
TL VANDISI	-	2	2
TL VANDISI	-	13	13
NP MOPEDI	-	279	279
NA NDLOVU	-	3 775	3 775

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>42. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
V DE BEER	-	495
E C SOTHOANE	-	12 051
PS CHONI	-	3 676
S M VERMAAK	-	2 084
SCHOONWINKEL H J	-	1 896
G P MANDELSTAM	-	491
ME MAGASHULE	-	1 532
	<b>-</b>	<b>177 400</b>
		<b>177 400</b>

### 30 June 2013

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Bocibo CN	2 630	14 302	16 932
Choni PS	722	2 349	3 071
De Beer VE	817	2 749	3 566
Magashule	2 381	2 541	4 922
Mafuma MJ	1 403	2 782	4 185
Masike IR	1 274	18 010	19 284
Masooa MJ	1 282	2 109	3 391
Mbele MA	691	1 978	2 669
Mofokeng DM	664	2 221	2 885
Mofokeng LM	1 024	3 629	4 653
Moliko LR	757	9 662	10 419
Molotsane AM	2 617	21 895	24 512
Mopeli NP	664	1 972	2 636
Mvulane SL	672	2 950	3 622
Ndayi PR	8 575	2 094	10 669
Ndlovu NA	1 266	2 449	3 715
Ramabitsa IM	579	10 276	10 855
Seabi M	907	4 225	5 132
Ranthako MC	728	2 284	3 012
Serathi KM	3 905	2 671	6 576
Sothoane EC	6 854	14 787	21 641
Tladi LL	845	3 371	4 216
Vandisi TL	722	2 570	3 292
	<b>41 979</b>	<b>133 876</b>	<b>175 855</b>

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

### Supply chain management regulations

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

### 43. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government Gazette No. 27636 issued on 30 May 2004. Deviation from supply chain management regulations<sup>5</sup> states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

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

### 44. Fruitless and wasteful expenditure

Opening balance	46 023 332	25 057 249
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# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>44. Fruitless and wasteful expenditure (continued)</b>		
Bank account not in use but still incurs service fees	-	866
Eskom interest on overdue account	27 402 691	15 893 896
Employees tax - penalty and interest	-	2 085 815
Rand Water interest on overdue account	10 982	6 824
VAT - penalty and interest	-	112 490
Pension fund - interest paid on overdue account	3 388	13 639
INCA loan - penalty interest on loan	-	759 901
The phone book company - interest paid on overdue account	-	68 332
Ponoane Attorneys, Notaries & Conveyancers - interest paid on overdue account	134 793	77 442
Jansen Prokureurs - interest paid on overdue account	-	2 032
Symington De Kock Attorneys - interest paid on overdue account	55 871	53 650
Gous Vertue & Ass Ing - interest paid on overdue account	-	29 702
ADW Van Den Berg Attorneys - interest paid on overdue account	249 420	87 973
Shongwe Attorneys - interest paid on overdue account	-	83 085
L Mnguni & Associates - interest paid on overdue account	-	38 451
Rampai Attorneys - interest paid on overdue account	186 697	440 662
Steyn Lyell Maeyane - interest paid on overdue account	-	192 000
Cengcani & Associates - interest paid on overdue account	-	97 440
Lebea & Associates Attorneys - interest paid on overdue account	-	385 745
Cornelius & Partners - interest paid on overdue account	25 000	25 000
Lomas Walker Attorneys - interest paid on overdue account	-	83 237
JC Burger Attorneys - interest paid on overdue account	86 917	20 395
SALGA - interest paid on overdue account	1 062	18 764
Data M - interest paid on overdue account	-	420
Isintu Projects - interest paid on overdue account	308 738	-
Telkom - interest paid on overdue account	-	641
Water Affairs & Forestry - interest paid on overdue account	-	34 221
Kriek Van Wyk Inc - interest paid on overdue account	320 930	98 118
FOSTER PROKUREURS - interest paid on overdue account	8 336	-
GREHARD - interest paid on overdue account	5 400	-
DE WET LYELL - interest paid on overdue account	15 704	-
Du Toit Mandelstram-Interest on overdue accounts	20 427	-
Du Toit Swanepoel-Interest on overdue accounts	100 000	-
Grimbeek- Interest on overdue accounts	285 287	-
Kramer-Interest on overdue accounts	90 000	-
Johan Gouws-Interest on overdue accounts	393 317	-
Mhlabane-Interest on overdue accounts	9 184	-
Mokoka ATT- Interest on overdue accounts	225 461	-
Motaung ATT- Interest on overdue accounts	32 229	-
Sheriff- Parys-Interest on overdue accounts	1 549	-
Tafita-Interest on overdue accounts	98 000	-
	<b>76 094 715</b>	<b>45 767 990</b>

### 45. Risk management

#### Financial risk management

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

#### Liquidity risk

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

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



# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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Figures in Rand 2014 2013

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### 45. Risk management (continued)

#### Credit risk

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

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. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board.

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

Financial instrument	2014	2013
Interest rate swap	-	140 450 950
Fixed interest loan to X Ltd	-	65 557 568
Bank A	-	46 652 605
Bank B	-	(248 249 020)

### 46. Going concern

We draw attention to the fact that the municipality incurred a loss of R 50 469 287 (2013: R 73 486 561 ) for the year ended 30 June 2014. The municipality were unable to collect all outstanding debtors in a timely manner, resulting in the debtors days outstanding being much longer than the norm. The municipality were also not able to pay its outstanding creditors within the legislative timeframe of 30 days. The cash flow constraints experienced by the municipality together with the fact that the municipality incurred a loss for the year under review may be an indication that the municipality will not be able to meet its current liabilities and may cast doubt on the entity's ability to continue as a going concern.

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer should ensure that the municipality recovers its outstanding debtors and continue to receive governments grants.

# Ngwathe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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Figures in Rand

2014

2013

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47. Unauthorised expenditure

48. Budget differences

## Appendix A

June 2014

### Schedule of external loans as at 30 June 2014

	Balance at 30 June 2013	Received during the period	Redeemed written off during the period	Balance at 30 June 2014	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
	Rand	Rand	Rand	Rand	Rand	Rand
<b>Development Bank of South Africa</b>						
Long term loan	-	-	15 182 705	(15 182 705)	6 548 997	8 633 708
	-	-	<b>15 182 705</b>	<b>(15 182 705)</b>	<b>6 548 997</b>	<b>8 633 708</b>
<b>Other loans</b>						
DWA Loan	-	-	30 544	(30 544)	-	-
Loan INCA 1	-	-	671 534	(671 534)	(30 544)	652 461
INCA	-	-	35 080	(35 080)	(16 006)	19 074
	-	-	<b>737 158</b>	<b>(737 158)</b>	<b>(46 550)</b>	<b>671 535</b>
<b>Total external loans</b>						
Development Bank of South Africa	-	-	15 182 705	(15 182 705)	6 548 997	8 633 708
Other loans	-	-	737 158	(737 158)	(46 550)	690 608
	-	-	<b>15 919 863</b>	<b>(15 919 863)</b>	<b>6 502 447</b>	<b>9 324 316</b>

# Appendix B

June 2014

## Analysis of property, plant and equipment as at 30 June 2014

### Cost/Revaluation Accumulated depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Land and buildings</b>														
Land (Separate for AFS purposes)	4 370 075	-	-	-	-	-	4 370 075	-	-	-	-	-	-	4 370 075
Landfill Sites (Separate for AFS purposes)	4 000 886	-	-	-	-	-	4 000 886	(2 631 661)	-	-	(133 363)	-	(2 765 024)	1 235 863
Quarries (Separate for AFS purposes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buildings (Separate for AFS purposes)	51 962 134	1 509 846	-	-	-	-	53 471 980	(14 256 553)	-	-	(878 729)	-	(15 135 282)	38 336 698
	<b>60 333 095</b>	<b>1 509 846</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>61 842 941</b>	<b>(16 888 214)</b>	<b>-</b>	<b>-</b>	<b>(1 012 092)</b>	<b>-</b>	<b>(17 900 306)</b>	<b>43 942 636</b>
<b>Infrastructure</b>														
Airports	2 264 000	-	-	-	-	-	2 264 000	(855 000)	-	-	(171 000)	-	(1 026 000)	1 238 000
Water	163 599 457	-	-	-	-	-	163 599 457	(31 192 145)	-	-	(6 092 225)	-	(37 284 370)	126 315 087
Sewerage	84 434 686	-	-	-	-	-	84 434 686	(10 751 341)	-	-	(1 863 224)	-	(12 614 565)	71 820 121
Electricity	499 926 543	-	-	-	-	-	499 926 543	(144 399 328)	-	-	(28 964 835)	-	(173 364 163)	326 562 380
Under construction	104 923 237	177 463 550	-	-	-	-	282 386 787	-	-	-	(6 417 882)	-	(6 417 882)	275 968 905
Roads	673 739 320	21 807 477	-	-	-	-	695 546 797	(262 069 346)	-	-	(52 847 596)	-	(314 916 942)	380 629 855
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>1 528 887 243</b>	<b>199 271 027</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1 728 158 270</b>	<b>(449 267 160)</b>	<b>-</b>	<b>-</b>	<b>(96 356 762)</b>	<b>-</b>	<b>(545 623 922)</b>	<b>1 182 534 348</b>
<b>Other Assets</b>														
Office Equipment	910 630	-	-	-	-	-	910 630	(651 650)	-	-	(157 902)	-	(809 552)	101 078
Furniture & Fittings	8 746 266	-	-	-	-	-	8 746 266	(6 858 791)	-	-	(1 408 002)	-	(8 266 793)	479 473
Plant & Machinery	3 632 264	-	-	-	-	-	3 632 264	(2 142 356)	-	-	(473 222)	-	(2 615 578)	1 016 686
Motor Vehicles	12 534 557	-	-	-	-	-	12 534 557	(7 224 019)	-	-	(1 498 710)	-	(8 722 729)	3 811 828
Computer Equipment	3 183 047	-	-	-	-	-	3 183 047	(2 173 866)	-	-	(543 237)	-	(2 717 103)	465 944
Computer Software	226 367	-	-	-	-	-	226 367	(65 547)	-	-	(45 273)	-	(110 820)	115 547
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>29 233 131</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>29 233 131</b>	<b>(19 116 229)</b>	<b>-</b>	<b>-</b>	<b>(4 126 346)</b>	<b>-</b>	<b>(23 242 575)</b>	<b>5 990 556</b>
<b>Investment</b>														
Investment Property	152 718 000	-	-	-	-	-	152 718 000	-	-	-	-	-	-	152 718 000
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>152 718 000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>152 718 000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>152 718 000</b>
<b>Total property plant and equipment</b>														
	<b>1 771 171 469</b>	<b>200 780 873</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1 971 952 342</b>	<b>(485 271 603)</b>	<b>-</b>	<b>-</b>	<b>(101 495 200)</b>	<b>-</b>	<b>(586 766 803)</b>	<b>1 385 185 540</b>

## Appendix B

### Analysis of property, plant and equipment as at 30 June 2013

<b>Cost/Revaluation</b>	<b>Accumulated depreciation</b>
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	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Land and buildings</b>														
Land (Separate for AFS purposes)	4 370 075	-	-	-	-	-	4 370 075	-	-	-	-	-	-	4 370 075
Landfill Sites (Separate for AFS purposes)	4 000 886	-	-	-	-	-	4 000 886	(2 498 298)	-	-	(133 363)	-	(2 631 661)	1 369 225
Quarries (Separate for AFS purposes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buildings (Separate for AFS purposes)	51 962 134	-	-	-	-	-	51 962 134	(11 375 683)	-	-	(2 880 870)	-	(14 256 553)	37 705 581
	<b>60 333 095</b>	-	-	-	-	-	<b>60 333 095</b>	<b>(13 873 981)</b>	-	-	<b>(3 014 233)</b>	-	<b>(16 888 214)</b>	<b>43 444 881</b>
<b>Infrastructure</b>														
Airports	2 264 000	-	-	-	-	-	2 264 000	(684 000)	-	-	(171 000)	-	(855 000)	1 409 000
Roads	673 739 320	-	-	-	-	-	673 739 320	(209 479 498)	-	-	(52 589 847)	-	(262 069 345)	411 669 975
Sewerage	84 434 686	-	-	-	-	-	84 434 686	(8 308 083)	-	-	(2 443 259)	-	(10 751 342)	73 683 344
Electricity	499 926 543	-	-	-	-	-	499 926 543	(115 434 493)	-	-	(28 964 835)	-	(144 399 328)	355 527 215
Water	163 599 457	-	-	-	-	-	163 599 457	(24 872 235)	-	-	(6 319 910)	-	(31 192 145)	132 407 312
Under construction	104 923 237	-	-	-	-	-	104 923 237	-	-	-	-	-	-	104 923 237
	<b>1 528 887 243</b>	-	-	-	-	-	<b>1 528 887 243</b>	<b>(358 778 309)</b>	-	-	<b>(90 488 851)</b>	-	<b>(449 267 160)</b>	<b>1 079 620 083</b>
<b>Other Assets</b>														
Office equipment	910 630	-	-	-	-	-	910 630	(529 881)	-	-	(121 769)	-	(651 650)	258 980
Furniture & fittings	8 746 266	-	-	-	-	-	8 746 266	(5 609 446)	-	-	(1 249 345)	-	(6 858 791)	1 887 475
Plant & machinery	3 632 264	-	-	-	-	-	3 632 264	(1 717 139)	-	-	(425 216)	-	(2 142 355)	1 489 909
Motor Vehicles	12 534 557	-	-	-	-	-	12 534 557	(5 855 279)	-	-	(1 368 740)	-	(7 224 019)	5 310 538
Computer Equipment	3 183 047	-	-	-	-	-	3 183 047	(1 737 139)	-	-	(436 727)	-	(2 173 866)	1 009 181
Computer software	226 367	-	-	-	-	-	226 367	(20 274)	-	-	(45 273)	-	(65 547)	160 820
	<b>29 233 131</b>	-	-	-	-	-	<b>29 233 131</b>	<b>(15 469 158)</b>	-	-	<b>(3 647 070)</b>	-	<b>(19 116 228)</b>	<b>10 116 903</b>
<b>Investment property</b>														
Investment property	152 718 000	-	-	-	-	-	152 718 000	-	-	-	-	-	-	152 718 000
	<b>152 718 000</b>	-	-	-	-	-	<b>152 718 000</b>	-	-	-	-	-	-	<b>152 718 000</b>
<b>Total property plant and equipment</b>	<b>1 771 171 469</b>	-	-	-	-	-	<b>1 771 171 469</b>	<b>(388 121 448)</b>	-	-	<b>(97 150 154)</b>	-	<b>(485 271 602)</b>	<b>1 285 899 867</b>

## Appendix E(1)

June 2014

### Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2014

	Current year 2014 Act. Bal.	Current year 2014 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
<b>Revenue</b>					
Service charges	315 690 955	-	315 690 955	-	
Rental of facilities and equipment	311 215	-	311 215	-	
Other income - (rollup)	1 628 683	-	1 628 683	-	
Interest received - investment	30 358 836	-	30 358 836	-	
	<b>347 989 689</b>	-	<b>347 989 689</b>	-	
<b>Expenses</b>					
Personnel	(174 091 552)	-	(174 091 552)	-	
Remuneration of councillors	(10 084 329)	-	(10 084 329)	-	
Depreciation	(101 495 200)	-	(101 495 200)	-	
Finance costs	(1 826 968)	-	(1 826 968)	-	
Repairs and maintenance - General	(20 458 137)	-	(20 458 137)	-	
Bulk purchases	(149 690 322)	-	(149 690 322)	-	
Contracted Services	(4 676 520)	-	(4 676 520)	-	
General Expenses	(128 816 159)	-	(128 816 159)	-	
	<b>(591 139 187)</b>	-	<b>(591 139 187)</b>	-	
<b>Other revenue and costs</b>					
Fair value adjustments	107 481	-	107 481	-	
	<b>107 481</b>	-	<b>107 481</b>	-	
<b>Net surplus/ (deficit) for the year</b>	<b>(243 042 017)</b>	-	<b>(243 042 017)</b>	-	

## Appendix F

### Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003 as at 30 June 2014

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly Expenditure				Grants and Subsidies delayed/ withheld				Reason for delay/ withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for non- compliance
															Yes/No	
FMG	Ngwathe	1 500	-	-	-	126	194	120	1 176	-	-	-160	-	Unspent rollover denied	Yes	
MIG	Ngwathe	24 475	19 124	6 842	-	2 784	11 978	5 773	21 016	-	-	-2 700	-	Unspent rollover denied	Yes	
INEG	Ngwathe	-	-	-	-	-	1 372	1 255	2 381	-	-	-308	-	Unspent rollover denied	Yes	
MSIG	Ngwathe	800	-	-	-	-	-	161	78	-	-	-	-		Yes	
Public works	Ngwathe	397	298	298	-	-	49	138	16	-	-	-	-		Yes	
LG Seta	Ngwathe	266	-	939	150	65	11	55	144	-	-	-	-		Yes	
Equitable share	Ngwathe	64 160	10 656	73 288	-	-	-	-	-	-	-	-	-		Yes	
		<u>91 598</u>	<u>30 078</u>	<u>81 367</u>	<u>150</u>	<u>2 975</u>	<u>13 604</u>	<u>7 502</u>	<u>24 811</u>	<u>-</u>	<u>-</u>	<u>-3 168</u>	<u>-</u>			