Ngwathe Local Municipality
Financial statements
for the year ended 30 June 2016

# General Information

| | |
|---|---|
| **Legal form of entity** | Category C municipality in terms of Section 1 of Local Government's Municipal Structures Act, 1998 (Act 117 of 1998) read with Section 15 (1) of the Constitution of the Republic of South Africa (Act 108 of 1996 |
| **Nature of business and principal activities** | The primary function of the municipality is to provide basic services ie water, electricity, sewerage, water and sanitation to the Ngwathe jurisdiction. |
| **Mayoral committee** | |
| Executive Mayor | Mochela MJ |
| Councillors | Ndayi PR (Speaker) |
| | Mandelstam GP (Exco member) |
| | Mopedi NP (Exco menber) |
| | Schoonwinkel A (Exco member) |
| | Sarathi M (Exco member) |
| | Vandisi TL (Exco member) |
| | Bocibo C (Deceased) |
| | Choni SP |
| | De Beer VE |
| | De Jager A |
| | De Jager SHF (New) |
| | Ferendale RS (New) |
| | Hlapane ML |
| | Khumalo KJ |
| | Masooa MJ |
| | Mbele AM |
| | Mehlo LR |
| | Modiko DV |
| | Mofokeng MD |
| | Mofokeng ML |
| | Mofokeng MM |
| | Molaphene PM |
| | Molotsane RJ |
| | Motsumi ME |
| | Mthimkulu S (New) |
| | Mvulane L |
| | Ndlovu NA |
| | Oliphant AM |
| | Radebe DM |
| | Ramabitsa IM |
| | Ranthako MC |
| | Roos J (Deceased) |
| | Scholtz F |
| | Seabi IM (Resigned) |
| | Sehume AM |
| | Serfontein C |
| | Sothoane CE |
| | Spence DI (New) |
| | Swart AP |
| | Tladi LL |
| | Van Der Merwe PP |

# General Information

| | |
|---|---|
| | Vermark SM |
| **Grading of local authority** | Category C |
| **Chief Finance Officer (CFO)** | Samyala N |
| **Accounting Officer** | Tsekedi PS |
| **Registered office** | 12 Liebenbergs Trek<br>Parys<br>9585 |
| **Business address** | 12 Liebenbergs Trek<br>9585 |
| **Postal address** | PO Box 359<br>Parys<br>9585 |
| **Bankers** | ABSA |
| **Attorneys** | Utilise attorneys in Municipal areas<br>(Detailed list available at Municipal offices) |
| **Contact details** | Chief Financial Officer - 056 816 2700<br>Minicipal Manager - 056 816 2700 |

# Index

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



**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) |

# Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

The financial statements set out on pages 8 to 90, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed on its behalf by:

**Tsekedi PS**
**Acting Municipal Manager**

## Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2016.

**Audit committee members and attendance**

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

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year 3 meetings were held.

| Name of member | Number of meetings attended |
| --- | --- |
| Mokhesi N (Chairperson) | 2 (Apologies - 1) |
| Mogadime JV | 2 (Apologies - 1) |
| Mahlatsi MNG | 2 (Apologies - 1) |
| Mohlahlo ME | 0 (Apologies - 3) |

**Audit committee responsibility**

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

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

**The effectiveness of internal control**

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

**Compliance with applicable laws and regulations**

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

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

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

**Evaluation of financial statements**

The audit committee has:

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

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

# Audit Committee Report

**Internal audit**

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

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

(a) Audit Committee Charter;
(b) Internal Audit Charter; and
(c) Risk based audit plan and annual internal audit program for the 2015-16 financial year (for compliance with section 165 of the Municipal Finance Management Act).

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

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

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

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

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

Up-to-date no comments or action plans have been received for the following reports issued:
(a) Payroll and Human Resource Management;
(b) Expenditure;
(c) Income - Receipts, receipts through the post and direct deposits; and
(d) Creditors (accounts payable)
(e) Value Added Tax

With exception of response to the following reports:
(a) Income - Rates, General, Trading and Economic services
(b) Debtors (accounts receivable)
(c) Fixed assets; and
(d) Quarterly Performance Information

# Audit Committee Report

**Auditor-General of South Africa**

The committee noted with pleasure that the Auditor-General issued an unqualified of opinion on the financial statements of the municipality for 2014 -15 financial year. The committee further report that it unconditionally accepted the report of the Auditor-General for the financial year ended 30 June 2015.

During the meetings held in 2015/16 financial year, the Committee had an opportunity to discuss Auditor-General audit outcome on the Annual Financial Statement of 2014-15 financial year, and also monitored the progress made in terms of addressing the findings raised.

**Risk Management**

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

**Adequacy of financial reporting**

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

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**Chairperson of the Audit Committee**

**Date:** ______________________

## Statement of Financial Position as at 30 June 2016

| Figures in Rand | Note(s) | 2016 | 2015 Restated* |
|---|---|---|---|
| **Assets** | | | |
| Current Assets | | | |
| Sundry receivables | 8 | 1 374 396 | 1 690 581 |
| Inventories | 9 | 456 103 | 556 893 |
| Receivables from exchange transactions | 10 | 44 823 391 | 39 173 751 |
| Receivables from non-exchange transactions | 11 | 17 758 545 | 18 425 133 |
| Cash and cash equivalents | 12 | 8 443 765 | 3 085 216 |
| VAT receivable | 50 | 30 708 404 | 21 300 126 |
| | | **103 564 604** | **84 231 700** |
| Non-Current Assets | | | |
| Investment property | 3 | 110 445 239 | 104 687 430 |
| Property, plant and equipment | 4 | 735 784 355 | 718 735 897 |
| Intangible assets | 5 | 1 321 200 | 1 321 200 |
| Other financial assets | 6 | 849 591 | 1 501 113 |
| | | **848 400 385** | **826 245 640** |
| **Total Assets** | | **951 964 989** | **910 477 340** |
| **Liabilities** | | | |
| Current Liabilities | | | |
| Employee benefit obligation | 7 | 3 361 000 | 2 843 350 |
| Finance lease obligation | 13 | 282 326 | 562 917 |
| Unspent conditional grants and receipts | 14 | 508 116 | 76 179 |
| Other financial liabilities | 15 | 2 181 704 | 2 181 704 |
| Provisions | 16 | 98 928 724 | 94 326 127 |
| Payables from exchange transactions | 17 | 707 607 253 | 554 824 222 |
| Consumer deposits | 18 | 5 367 740 | 5 513 114 |
| | | **818 236 863** | **660 327 613** |
| Non-Current Liabilities | | | |
| Employee benefit obligation | 7 | 77 160 000 | 66 499 650 |
| Finance lease obligation | 13 | 353 745 | 634 330 |
| Other financial liabilities | 15 | 1 465 238 | 4 122 303 |
| Provisions | 16 | 114 645 270 | 96 953 094 |
| | | **193 624 253** | **168 209 377** |
| **Total Liabilities** | | **1 011 861 116** | **828 536 990** |
| **Net Assets** | | **(59 896 127)** | **81 940 350** |
| Accumulated surplus | | (59 896 127) | 81 940 350 |

* See Note 43

## Statement of Financial Performance

| Figures in Rand | Note(s) | 2016 | 2015 Restated* |
|---|---|---|---|
| **Revenue** | | | |
| **Revenue from exchange transactions** | | | |
| Service charges | 19 | 232 788 542 | 224 087 625 |
| Rental of facilities and equipment | 20 | 1 008 755 | 1 434 161 |
| Other income | 22 | 1 695 828 | 2 050 101 |
| Dividends received | 23 | 1 860 | 16 334 |
| Interest received | 23 | 35 863 894 | 34 771 042 |
| **Total revenue from exchange transactions** | | **271 358 879** | **262 359 263** |
| **Revenue from non-exchange transactions** | | | |
| **Taxation revenue** | | | |
| Fines | 21 | 762 625 | 905 529 |
| Property rates | 24 | 64 480 845 | 59 638 797 |
| **Transfer revenue** | | | |
| Government grants & subsidies | 25 | 266 946 630 | 192 320 420 |
| **Total revenue from non-exchange transactions** | | **332 190 100** | **252 864 746** |
| **Total revenue** | | **603 548 979** | **515 224 009** |
| **Expenditure** | | | |
| Employee related costs | 26 | (183 643 274) | (179 107 842) |
| Remuneration of councillors | 27 | (11 478 640) | (10 710 779) |
| Depreciation and amortisation | 28 | (60 763 037) | (65 934 985) |
| Impairment of assets | 29 | (93 312 475) | (42 197 809) |
| Finance costs | 30 | (81 100 334) | (58 711 235) |
| Bad debts written off | 31 | (26 846 582) | (52 333 827) |
| Bulk purchases | 32 | (181 519 870) | (162 495 214) |
| Contracted services | 33 | (1 360 105) | (2 535 946) |
| General expenses | 34 | (98 444 932) | (202 922 443) |
| Repairs and maintenance | 35 | (10 048 009) | (27 739 257) |
| **Total expenditure** | | **(748 517 258)** | **(804 689 337)** |
| **Operating deficit** | | **(144 968 279)** | **(289 465 328)** |
| Property plant and equipment losses/write-offs | 4 | - | (1 113 245) |
| Actuarial gains/(losses) | 7 | (2 489 000) | 7 152 000 |
| Inventories losses/write-downs | 9 | (100 962) | (70 323) |
| Fair value adjustments | 36 | 5 721 773 | 6 928 823 |
| | | **3 131 811** | **12 897 255** |
| **Deficit for the year** | | **(141 836 468)** | **(276 568 073)** |

* See Note 43

## Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
|---|---|---|
| **Balance at 01 July 2014** | **358 508 424** | **358 508 424** |
| Changes in net assets | | |
| Surplus for the year | (276 568 074) | (276 568 074) |
| Total changes | (276 568 074) | (276 568 074) |
| **Restated* Balance at 01 July 2015** | **81 940 343** | **81 940 343** |
| Changes in net assets | | |
| Surplus for the year | (141 836 470) | (141 836 470) |
| Total changes | (141 836 470) | (141 836 470) |
| **Balance at 30 June 2016** | **(59 896 127)** | **(59 896 127)** |

Note(s)

* See Note 43

## Cash Flow Statement

| Figures in Rand | Note(s) | 2016 | 2015 Restated* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Sale of goods and services (exchange and non-exchange) | | 172 127 279 | 179 010 202 |
| Grants | | 267 378 567 | 186 758 117 |
| Interest income | | 35 863 894 | 34 771 042 |
| Dividends received | | 1 860 | 16 334 |
| Other receipts | | 3 783 393 | 3 655 412 |
| | | 479 154 993 | 404 211 107 |
| **Payments** | | | |
| Employee costs | | (183 748 590) | (178 210 954) |
| Suppliers | | (125 748 276) | (96 375 728) |
| Finance costs | | (81 100 328) | (58 711 234) |
| | | (390 597 194) | (333 297 916) |
| **Net cash flows from operating activities** | 38 | **88 557 799** | **70 913 191** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 4 | (77 811 491) | (68 418 379) |
| Proceeds from sale of property, plant and equipment | 4 | - | 10 500 |
| Additions on investments | | 615 485 | - |
| **Net cash flows from investing activities** | | **(77 196 006)** | **(68 407 879)** |
| **Cash flows from financing activities** | | | |
| Employee benefit obligation payments | | (2 785 000) | (2 720 000) |
| Finance lease payments | | (561 176) | (1 209 441) |
| Net movement in other financial liabilities | | (2 657 065) | (2 329 701) |
| **Net cash flows from financing activities** | | **(6 003 241)** | **(6 259 142)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **5 358 552** | **(3 753 828)** |
| Cash and cash equivalents at the beginning of the year | | 3 085 216 | 6 839 044 |
| **Cash and cash equivalents at the end of the year** | 12 | **8 443 768** | **3 085 216** |

* See Note 43

# Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Performance** | | | | | | |
| **Revenue** | | | | | | |
| **Revenue from exchange transactions** | | | | | | |
| Service charges | 283 149 000 | (11 000 000) | **272 149 000** | 232 788 542 | **(39 360 458)** | < 10% |
| Rental of facilities and equipment | 2 477 000 | 25 000 | **2 502 000** | 1 008 755 | **(1 493 245)** | Note 52 - X1 |
| Dividends received | 7 000 | - | **7 000** | 1 860 | **(5 140)** | Note 52 - X2 |
| Other income | 7 434 000 | 1 823 000 | **9 257 000** | 1 695 828 | **(7 561 172)** | Note 52 - X3 |
| Interest received | 14 503 000 | 14 000 000 | **28 503 000** | 35 863 894 | **7 360 894** | Note 52 - X4 |
| **Total revenue from exchange transactions** | **307 570 000** | **4 848 000** | **312 418 000** | **271 358 879** | **(41 059 121)** | |
| **Revenue from non-exchange transactions** | | | | | | |
| **Taxation revenue** | | | | | | |
| Property rates | 56 633 000 | 6 000 000 | **62 633 000** | 64 480 845 | **1 847 845** | Note 52 - X5 |
| Licences or permits | 1 000 | - | **1 000** | - | **(1 000)** | |
| **Transfer revenue** | | | | | | |
| Government grants & subsidies | 206 398 000 | 50 000 000 | **256 398 000** | 266 946 630 | **10 548 630** | Note 52 - X24 |
| Fines | 3 846 000 | 5 000 | **3 851 000** | 762 625 | **(3 088 375)** | Note 52 - X6 |
| **Total revenue from non-exchange transactions** | **266 878 000** | **56 005 000** | **322 883 000** | **332 190 100** | **9 307 100** | |
| **Total revenue** | **574 448 000** | **60 853 000** | **635 301 000** | **603 548 979** | **(31 752 021)** | |
| **Expenditure** | | | | | | |
| Employee cost | (156 859 000) | 1 674 000 | **(155 185 000)** | (183 643 274) | **(28 458 274)** | Note 52 - X7 |
| Remuneration of councillors | (11 073 000) | (1 709 000) | **(12 782 000)** | (11 478 640) | **1 303 360** | Note 52 - X26 |
| Depreciation and amortisation | (95 000 000) | 17 000 000 | **(78 000 000)** | (60 763 037) | **17 236 963** | Note 52 - X8 |
| Impairment loss/ Reversal of impairments | (42 320 000) | (17 000 000) | **(59 320 000)** | (93 312 475) | **(33 992 475)** | Note 52 - X9 |
| Finance costs | (1 000 000) | - | **(1 000 000)** | (81 100 334) | **(80 100 334)** | Note 52 - X10 |
| Bad debts written off | - | - | **-** | (26 846 582) | **(26 846 582)** | Note 52 - X11 |
| Repairs and maintenance | (2 050 000) | (300 000) | **(2 350 000)** | (10 048 009) | **(7 698 009)** | Note 52 - X12 |
| Bulk purchases | (248 614 000) | - | **(248 614 000)** | (181 519 870) | **67 094 130** | Note 52 - X40 |
| Contracted Services | (16 260 000) | (1 040 000) | **(17 300 000)** | (1 360 105) | **15 939 895** | Note 52 - X13 |
| Transfers and Subsidies | (44 879 000) | - | **(44 879 000)** | - | **44 879 000** | |
| General Expenses | (49 977 000) | (9 903 000) | **(59 880 000)** | (98 444 932) | **(38 564 932)** | Note 52 - X14 |
| **Total expenditure** | **(668 032 000)** | **(11 278 000)** | **(679 310 000)** | **(748 517 258)** | **(69 207 258)** | |
| **Operating deficit** | **(93 584 000)** | **49 575 000** | **(44 009 000)** | **(144 968 279)** | **(100 959 279)** | |
| Fair value adjustments | - | - | **-** | 5 721 773 | **5 721 773** | Note 52 - X16 |
| Actuarial gains/losses | - | - | **-** | (2 489 000) | **(2 489 000)** | Note 52 - X17 |
| Inventories losses/write-downs | - | - | **-** | (100 962) | **(100 962)** | Note 52 - X18 |
| | **-** | **-** | **-** | **3 131 811** | **3 131 811** | |
| **Deficit before taxation** | **(93 584 000)** | **49 575 000** | **(44 009 000)** | **(141 836 468)** | **(97 827 468)** | |

# Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement** | **(93 584 000)** | **49 575 000** | **(44 009 000)** | **(141 836 468)** | **(97 827 468)** | |

# Ngwathe Local Municipality
(Registration number FS203)
Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Position** | | | | | | |
| **Assets** | | | | | | |
| **Current Assets** | | | | | | |
| Inventories | - | - | **-** | 456 103 | **456 103** | Note 52 - X28 |
| Other financial assets | 202 301 000 | - | **202 301 000** | - | **(202 301 000)** | |
| Receivables from non-exchange transactions | 690 232 000 | - | **690 232 000** | 17 758 545 | **(672 473 455)** | Note 52 - X19 |
| VAT receivable | - | - | **-** | 30 708 404 | **30 708 404** | Note 52 - X28 |
| Receivables from exchange transactions | - | - | **-** | 44 823 391 | **44 823 391** | Note 52 - X20 |
| Sundry receivables | - | - | **-** | 1 374 396 | **1 374 396** | Note 52 - x28 |
| Cash and cash equivalents | 7 990 000 | - | **7 990 000** | 8 443 765 | **453 765** | Note 52 - X21 |
| | **900 523 000** | **-** | **900 523 000** | **103 564 604** | **(796 958 396)** | |
| **Non-Current Assets** | | | | | | |
| Investment property | 152 718 000 | - | **152 718 000** | 110 445 239 | **(42 272 761)** | < 10% |
| Property, plant and equipment | 1 075 131 000 | - | **1 075 131 000** | 735 784 355 | **(339 346 645)** | Note 52 - X22 |
| Intangible assets | - | - | **-** | 1 321 200 | **1 321 200** | Note 52 - X28 |
| Other financial assets | 1 242 000 | - | **1 242 000** | 849 591 | **(392 409)** | Note 52 - X23 |
| | **1 229 091 000** | **-** | **1 229 091 000** | **848 400 385** | **(380 690 615)** | |
| **Total Assets** | **2 129 614 000** | **-** | **2 129 614 000** | **951 964 989** | **(1 177 649 011)** | |
| **Liabilities** | | | | | | |
| **Current Liabilities** | | | | | | |
| Other financial liabilities | 2 200 000 | - | **2 200 000** | 2 181 704 | **(18 296)** | Note 52 - X24 |
| Finance lease obligation | - | - | **-** | 282 326 | **282 326** | Note 52 - X28 |
| Payables from exchange transactions | 240 092 000 | - | **240 092 000** | 707 607 253 | **467 515 253** | Note 52 - X25 |
| Consumer deposits | - | - | **-** | 5 367 740 | **5 367 740** | Note 52 - X28 |
| Employee benefit obligation | - | - | **-** | 3 361 000 | **3 361 000** | Note 52 - X28 |
| Unspent conditional grants and receipts | - | - | **-** | 508 116 | **508 116** | Note 52 - X28 |
| Provisions | 38 275 000 | - | **38 275 000** | 98 928 724 | **60 653 724** | Note 52 - X27 |
| Bank overdraft | - | 418 244 000 | **418 244 000** | - | **(418 244 000)** | Note 52 - X15 |
| | **280 567 000** | **418 244 000** | **698 811 000** | **818 236 863** | **119 425 863** | |
| **Non-Current Liabilities** | | | | | | |
| Other financial liabilities | 1 777 000 | - | **1 777 000** | 1 465 238 | **(311 762)** | Note 52 - X24 |
| Finance lease obligation | - | - | **-** | 353 745 | **353 745** | Note 52 - X28 |
| Employee benefit obligation | - | - | **-** | 77 160 000 | **77 160 000** | Note 52 - X28 |
| Provisions | - | - | **-** | 114 645 270 | **114 645 270** | Note 52 - X27 |
| | **1 777 000** | **-** | **1 777 000** | **193 624 253** | **191 847 253** | |
| **Total Liabilities** | **282 344 000** | **418 244 000** | **700 588 000** | **1 011 861 116** | **311 273 116** | |
| **Net Assets** | **1 847 270 000** | **(418 244 000)** | **1 429 026 000** | **(59 896 127)** | **(1 488 922 127)** | |

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Net Assets** | | | | | | |
| **Net Assets Attributable to Owners of Controlling Entity** | | | | | | |
| **Reserves** | | | | | | |
| Accumulated surplus | 1 847 270 000 | (418 244 000) | **1 429 026 000** | (59 896 127) | **(1 488 922 127)** | Note 52 - X28 |

# Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Cash Flow Statement** | | | | | | |
| **Cash flows from operating activities** | | | | | | |
| **Receipts** | | | | | | |
| Sale of goods and services | 252 118 000 | (14 964 137) | **237 153 863** | 172 127 278 | **(65 026 585)** | <10% |
| Grants | 206 398 000 | 77 845 000 | **284 243 000** | 267 378 567 | **(16 864 433)** | Note 52 - X29 |
| Interest income | 4 371 000 | 350 000 | **4 721 000** | 35 839 950 | **31 118 950** | Note 52 - X30 |
| Dividends received | 7 000 | - | **7 000** | 1 860 | **(5 140)** | Note 52 - X31 |
| Other receipts | 11 823 000 | 36 980 789 | **48 803 789** | 3 799 203 | **(45 004 586)** | Note 52 - X32 |
| | **474 717 000** | **100 211 652** | **574 928 652** | **479 146 858** | **(95 781 794)** | |
| **Payments** | | | | | | |
| Suppliers and employee costs | (469 971 000) | 47 500 000 | **(422 471 000)** | (309 512 674) | **112 958 326** | Note 52 - X33 |
| Transfer of grants | (40 761 000) | 40 761 000 | **-** | - | **-** | Note 52 - X35 |
| Other cash item | (1 000 000) | - | **(1 000 000)** | (81 100 328) | **(80 100 328)** | |
| | **(511 732 000)** | **88 261 000** | **(423 471 000)** | **(390 613 002)** | **32 857 998** | |
| **Net cash flows from operating activities** | **(37 015 000)** | **188 472 652** | **151 457 652** | **88 533 856** | **(62 923 796)** | |
| **Cash flows from investing activities** | | | | | | |
| Purchase of property, plant and equipment | (75 647 000) | (17 990 000) | **(93 637 000)** | (77 811 491) | **15 825 509** | < 10% |
| Additions on investments | - | - | **-** | 639 431 | **639 431** | Note 52 - X 28 |
| Movement in debtors | 25 000 000 | (21 500 000) | **3 500 000** | - | **(3 500 000)** | |
| **Net cash flows from investing activities** | **(50 647 000)** | **(39 490 000)** | **(90 137 000)** | **(77 172 060)** | **12 964 940** | |
| **Cash flows from financing activities** | | | | | | |
| Repayment of other financial liabilities | (2 200 000) | (450 000) | **(2 650 000)** | (2 657 065) | **(7 065)** | Note 52 - X37 |
| Finance lease payments | - | - | **-** | (561 176) | **(561 176)** | Note 52 - X38 |
| Employee benefit obligation payments | - | - | **-** | (2 785 000) | **(2 785 000)** | Note 52 - X39 |
| **Net cash flows from financing activities** | **(2 200 000)** | **(450 000)** | **(2 650 000)** | **(6 003 241)** | **(3 353 241)** | |
| Net increase/(decrease) in cash and cash equivalents | (89 862 000) | 148 532 652 | **58 670 652** | 5 358 555 | **(53 312 097)** | |
| Cash and cash equivalents at the beginning of the year | 35 785 000 | - | **35 785 000** | 3 085 216 | **(32 699 784)** | |
| **Cash and cash equivalents at the end of the year** | **(54 077 000)** | **148 532 652** | **94 455 652** | **8 443 771** | **(86 011 881)** | |

# Accounting Policies

## 1. Presentation of Financial Statements

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

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

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

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

### 1.1 Presentation currency

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

### 1.2 Going concern assumption

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

### 1.3 Significant judgements and sources of estimation uncertainty

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

Significant judgements include:

**Receivables**

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

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

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

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

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

**Impairment testing**

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

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

**Provisions**

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

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

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

**Post retirement benefits**

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

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

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

**Effective interest rate**

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

**Allowance for impairment**

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

### 1.4 Investment property

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

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

## Accounting Policies

### 1.4 Investment property (continued)

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

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

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

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

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

**Fair value**

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

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

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

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

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

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

### 1.5 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses, except for land and buildings which are subsequently measured at fair value.

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

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

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

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

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

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

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

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

### 1.6 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;

(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and

(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

### 1.7 Intangible assets

An intangible asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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

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

### 1.7 Intangible assets (continued)

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

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

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

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

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

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

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

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

| **Item** | **Useful life** |
| --- | --- |
| Sevitudes | Indefinite |

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

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

### 1.8 Financial instruments

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

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

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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

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

### 1.8 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

### 1.8 Financial instruments (continued)

**Classification**

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

| Class | Category |
|---|---|
| Receivables fron exchange transctions | Financial asset measured at amortised cost |
| Receivables from non exchange transactions | Financial asset measured at amortised cost |
| Cash and cash equivelents | Financial asset measured at amortised cost |
| Other financial assets | Financial asset measured at fair value and amortised cost |
| Sundry receivables | Financial asset measured at amortised cost |

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

| Class | Category |
|---|---|
| Other financial liabilities | Financial liability measured at amortised cost |
| Payables from exchange transactions | Financial liability measured at amortised cost |
| Consumer deposits | Financial liability measured at amortised cost |
| Provisions | Financial liability measured at fair value |
| Retirements benefits obligations | Financial liability measured at fair value |

**Initial recognition**

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

The entity recognises financial assets using trade date accounting.

**Initial measurement of financial assets and financial liabilities**

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

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

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

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

### 1.8 Financial instruments (continued)

**Subsequent measurement of financial assets and financial liabilities**

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

**Fair value measurement considerations**

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

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

**Gains and losses**

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

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

**Impairment and uncollectibility of financial assets**

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

### 1.8 Financial instruments (continued)

**Derecognition**

**Financial assets**

The entity derecognises financial assets using trade date accounting.

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

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

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

**Financial liabilities**

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

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

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

### 1.9 Tax

**Value added tax (VAT)**

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

### 1.10 Leases

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

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

## Accounting Policies

**1.10 Leases (continued)**

**Finance leases - lessor**

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

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

**Finance leases - lessee**

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

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

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

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

**Operating leases - lessor**

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

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

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

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

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

**Operating leases - lessee**

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

**1.11 Inventories**

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

## Accounting Policies

**1.11 Inventories (continued)**

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

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

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

**1.12 Impairment of cash-generating assets**

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

**Identification**

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

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

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

**Value in use**

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

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

**Discount rate**

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

**Recognition and measurement (individual asset)**

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

**Cash-generating units**

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

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

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

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

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

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

**Reversal of impairment loss**

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

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

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

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

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

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

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

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

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

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

**Identification**

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

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

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

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

**Value in use**

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

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

**Depreciated replacement cost approach**

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

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

**Recognition and measurement**

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

An impairment loss is recognised immediately in surplus or deficit.

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

**Reversal of an impairment loss**

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

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

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

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

### 1.14 Share capital / contributed capital

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

### 1.15 Employee benefits

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

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

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

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

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

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

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

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

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

**Short-term employee benefits**

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

Short-term employee benefits include items such as:

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

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

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

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

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

## Accounting Policies

### 1.15 Employee benefits (continued)

**Post-employment benefits**

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

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

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

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

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

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

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

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

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

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

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

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

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

### 1.15 Employee benefits (continued)

**Actuarial assumptions**

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

### 1.16 Provisions and contingencies

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

### 1.16 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 41.

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

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

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

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

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

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

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

### 1.16 Provisions and contingencies (continued)

**Decommissioning, restoration and similar liability**

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

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

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

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

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

### 1.17 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.18 Revenue from exchange transactions

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

**1.18 Revenue from exchange transactions (continued)**

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

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

**Measurement**

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

**Sale of goods**

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

**Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

**Interest and dividends**

Revenue arising from the use by others of entity assets yielding interest and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

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

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

**1.19 Revenue from non-exchange transactions**

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

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

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

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

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

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

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

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

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

**Recognition**

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

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

**Measurement**

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

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

**Taxes**

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

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

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

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

**Transfers**

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

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

**Unspent conditional grants and receipts**

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

**Fines**

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

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

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

**Consumer deposits**

Consumer deposits are subsequently recognised in accordance with the accounting policy of Financial instruments.

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

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

**Services in-kind**

Services in-kind are not recognised.

### 1.20 Investment income

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

### 1.21 Borrowing costs

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

### 1.22 Comparative figures

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

### 1.23 Unauthorised expenditure

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

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

### 1.24 Fruitless and wasteful expenditure

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

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

### 1.25 Irregular expenditure

Irregular expenditure as defined in section 32 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury circular 68 which was issued in terms of sections 32 of the Municipal Finance Management Act, Act 56 of 2003 on 10 May 2013 requires the following:

Irregular expenditure that was incurred and identified during the current financial and which was written off before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which approval for write off is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only written off in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount written off.

Irregular expenditure that was incurred and identified during the current financial year and which was not written off by the Council must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been written off and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

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

### 1.26 Budget information

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

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

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

Comparative information is not required.

# Accounting Policies

### 1.27 Related parties

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

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

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

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

### 1.28 Events after reporting date

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

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

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

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

### 1.29 Grants in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:
• receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
• expect to be repaid in future; or
• expect a financial return, as would be expected from an investment.

### 2. New standards and interpretations

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

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

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

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

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

The municipality has adopted the standard for the first time in the 2016 financial statements.

The impact of the amendment is not material.

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

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

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

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

The municipality has adopted the standard for the first time in the 2016 financial statements.

The impact of the amendment is not material.

**GRAP 107: Mergers**

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

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

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

The municipality has adopted the standard for the first time in the 2016 financial statements.

The impact of the amendment is not material.

# Notes to the Financial Statements

## 2. New standards and interpretations (continued)

### 2.2 Standards and Interpretations early adopted

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

**DIRECTIVE 11: Changes in measurement bases following the initial adoption of Directive 11**

The objective of this Directive is to permit an entity to change its measurement bases following the initial adoption of Standards of GRAP. The change is based on the principles in the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors. This Directive should therefore be read in conjunction with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

In applying paragraph 13(b) of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors, this Directive allows an entity, that has initially adopted the fair value model for investment property or the revaluation model for property, plant and equipment, intangible assets or heritage assets, to change its accounting policy on a once-off basis to the cost model when the entity elects to change its accounting policy following the initial adoption of these Standards of GRAP. The once-off change will be allowed when the entity made an inappropriate accounting policy choice on the initial adoption of the Standards of GRAP.

Subsequent to the application of this Directive, an entity will be allowed to change its accounting policy in future periods subject to it meeting the requirements in the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality has early adopted the standard for the first time in the 2016 financial statements.

The impact of the standard is not material.

### 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 1 April 2015:

**GRAP 20: Related parties**

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

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:
- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

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

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

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

# Notes to the Financial Statements

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

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

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

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

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

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

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

The municipality expects to adopt the standard for the first time in the 2017 financial statements.

The impact of this standard is currently being assessed.

**GRAP32: Service Concession Arrangements: Grantor**

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

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

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

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

The impact of this standard is currently being assessed.

**GRAP108: Statutory Receivables**

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

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

## Notes to the Financial Statements

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

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

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

The impact of this standard is currently being assessed.

**GRAP 109: Accounting by Principals and Agents**

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement.

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

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

The impact of this standard is currently being assessed.

**3. Investment property**

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated impairment** | **Carrying value** |
| Investment property | 110 445 239 | - | 110 445 239 | 104 687 430 | - | 104 687 430 |

**Reconciliation of investment property - 2016**

| | Opening balance | Fair value adjustments | Total |
|---|---|---|---|
| Investment property | 104 687 430 | 5 757 809 | 110 445 239 |

**Reconciliation of investment property - 2015**

| | Opening balance | Disposals | Fair value adjustments | Total |
|---|---|---|---|---|
| Investment property | 97 849 220 | (10 500) | 6 848 710 | 104 687 430 |

**Details of investment property**

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

**Details of valuation**

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

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

### 4. Property, plant and equipment

| | 2016 | | | 2015 | | |
| --- | --- | --- | --- | --- | --- | --- |
| | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** |
| Land | 16 684 309 | - | 16 684 309 | 16 684 309 | - | 16 684 309 |
| Land and buildings | 64 278 571 | (25 711 429) | 38 567 142 | 64 278 572 | (22 854 603) | 41 423 969 |
| Plant and machinery | 2 894 593 | (2 171 807) | 722 786 | 2 692 663 | (2 077 617) | 615 046 |
| Furniture and fixtures | 8 642 541 | (7 171 686) | 1 470 855 | 8 513 667 | (7 111 673) | 1 401 994 |
| Motor vehicles | 17 302 648 | (12 740 281) | 4 562 367 | 17 302 648 | (11 155 814) | 6 146 834 |
| Office equipment | 814 759 | (440 480) | 374 279 | 814 759 | (433 566) | 381 193 |
| IT equipment | 2 649 408 | (2 171 303) | 478 105 | 2 214 445 | (2 117 998) | 96 447 |
| Infrastructure | 976 976 987 | (528 007 918) | 448 969 069 | 966 203 860 | (471 900 603) | 494 303 257 |
| Work in progress | 223 955 443 | - | 223 955 443 | 157 682 848 | - | 157 682 848 |
| **Total** | **1 314 199 259** | **(578 414 904)** | **735 784 355** | **1 236 387 771** | **(517 651 874)** | **718 735 897** |

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

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

| | Opening balance | Additions | WIP transfer to infrustructure | Transfers | Depreciation | Total |
|---|---|---|---|---|---|---|
| Land | 16 684 309 | - | - | - | - | 16 684 309 |
| Land and buildings | 41 423 969 | - | - | - | (2 856 826) | 38 567 143 |
| Plant and machinery | 615 046 | 201 929 | - | - | (94 189) | 722 786 |
| Furniture and fixtures | 1 401 994 | 128 875 | - | - | (60 014) | 1 470 855 |
| Motor vehicles | 6 146 834 | - | - | - | (1 584 467) | 4 562 367 |
| Office equipment | 381 193 | - | - | - | (6 914) | 374 279 |
| IT equipment | 96 447 | 434 963 | - | - | (53 306) | 478 104 |
| Infrastructure | 494 303 257 | 4 708 607 | - | 6 064 522 | (56 107 317) | 448 969 069 |
| Work in progress | 157 682 848 | - | 72 337 117 | (6 064 522) | - | 223 955 443 |
| | **718 735 897** | **5 474 374** | **72 337 117** | **-** | **(60 763 033)** | **735 784 355** |

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

| | Opening balance | Additions | WIP transfer to infrustructure | Write off | Depreciation | Impairment loss | Total |
|---|---|---|---|---|---|---|---|
| Land | 16 684 309 | - | - | - | - | - | 16 684 309 |
| Land and buildings | 44 280 793 | - | - | - | (2 856 824) | - | 41 423 969 |
| Plant and machinery | 957 234 | - | - | (184 247) | (157 941) | - | 615 046 |
| Furniture and fixtures | 1 493 166 | - | - | (30 695) | (57 240) | (3 237) | 1 401 994 |
| Motor vehicles | 8 899 919 | - | - | (440 757) | (2 102 346) | (209 982) | 6 146 834 |
| Office equipment | 457 729 | - | - | (13 247) | (63 289) | - | 381 193 |
| IT equipment | 554 856 | - | - | (444 299) | (14 110) | - | 96 447 |
| Infrastructure | 543 032 101 | 328 015 | 11 626 376 | - | (60 683 235) | - | 494 303 257 |
| Work in progress | 101 218 860 | 68 090 364 | (11 626 376) | - | - | - | 157 682 848 |
| | **717 578 967** | **68 418 379** | **-** | **(1 113 245)** | **(65 934 985)** | **(213 219)** | **718 735 897** |

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

**Pledged as security**

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

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

| | 2016 | 2015 |
| --- | --- | --- |
| Motor vehicles | 571 281 | 856 921 |

**Reconciliation of Work-in-Progress 2016**

| | Included within Infrastructure | Total |
| --- | --- | --- |
| Opening balance | 157 682 848 | 157 682 848 |
| Additions/capital expenditure | 75 376 376 | 75 376 376 |
| Transferred to completed items | (6 064 522) | (6 064 522) |
| | **226 994 702** | **226 994 702** |

**Reconciliation of Work-in-Progress 2015**

| | Included within Infrastructure | Total |
| --- | --- | --- |
| Opening balance | 101 218 860 | 101 218 860 |
| Additions/capital expenditure | 68 090 364 | 68 090 364 |
| Transferred to completed items | (11 626 376) | (11 626 376) |
| | **157 682 848** | **157 682 848** |

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

### 5. Intangible assets

| | 2016 | | | 2015 | | |
| --- | --- | --- | --- | --- | --- | --- |
| | **Cost / Valuation** | **Accumulated amortisation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated amortisation and accumulated impairment** | **Carrying value** |
| Servitudes | 1 321 200 | - | 1 321 200 | 1 321 200 | - | 1 321 200 |

**Reconciliation of intangible assets - 2016**

| | Opening balance | Total |
| --- | --- | --- |
| Servitudes | 1 321 200 | 1 321 200 |

**Reconciliation of intangible assets - 2015**

| | Opening balance | Total |
| --- | --- | --- |
| Servitudes | 1 321 200 | 1 321 200 |

## Notes to the Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

### 5. Intangible assets (continued)

**Details of valuation**

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

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

These assumptions are based on current market conditions.

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

### 6. Other financial assets

| | 2016 | 2015 |
|---|---|---|
| **Designated at fair value** | | |
| Sanlam shares<br>6 682 shares @ R60.36 trading value (2015: R66.34) | 403 326 | 443 284 |
| Senwes shares<br>4 329 shares @ 2015: R10.40 | - | 45 022 |
| Senwesbel<br>6 640 shares @ 2015: R6.05 | - | 40 172 |
| | **403 326** | **528 478** |
| **At amortised cost** | | |
| Heilbron Sanlam policy<br>Policy number - 11209914X8 | - | 85 679 |
| Heilbron Sanlam policy<br>Policy number - 040571573X1 | 382 977 | 359 032 |
| Heilbron Momentum Policy<br>Policy number - 091420370 | - | 468 308 |
| FNB Parys - 710381146801<br>Investment serves as guarantee for BJ Monyamara and bears interest at 5% | 46 599 | 43 858 |
| FNB deposit - 71037431386<br>Investment serves as guarantee for Saambou Bank and bears interest at 5.1% | 16 689 | 15 757 |
| | **446 265** | **972 634** |
| **Total other financial assets** | **849 591** | **1 501 112** |

| | 2016 | 2015 |
|---|---|---|
| **Non-current assets** | | |
| Designated at fair value | 403 326 | 528 478 |
| At amortised cost | 446 265 | 972 635 |
| | **849 591** | **1 501 113** |

| Figures in Rand | 2016 | 2015 |
|---|---|---|

### 6. Other financial assets (continued)

**Financial assets at fair value**

**Fair value hierarchy of financial assets at fair value**

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements. The fair value hierarchy have the following levels:

Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.

Level 2 applies inputs other than quoted prices that are observable for the assets either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 applies inputs which are not based on observable market data.

| | | |
|---|---|---|
| **Level 1** | | |
| Class 1- Unlisted shares | - | 85 194 |
| Class 2- Listed shares | 403 326 | 443 284 |
| | **403 326** | **528 478** |

**Renegotiated terms**

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

### 7. Employee benefit obligations

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

| | | |
|---|---|---|
| **Carrying value** | | |
| Present value of the post employment medical aid benefit | (66 432 000) | (56 456 000) |
| Present value of the long service award benefit | (14 089 000) | (12 887 000) |
| | **(80 521 000)** | **(69 343 000)** |
| Non-current liabilities | (77 160 000) | (66 499 650) |
| Current liabilities | (3 361 000) | (2 843 350) |
| | **(80 521 000)** | **(69 343 000)** |

| | | |
|---|---|---|
| **Amounts recognised in the statement of financial performance** | | |
| Current service cost | 5 249 000 | 4 816 000 |
| Finance cost | 6 225 000 | 6 259 000 |
| Actuarial (gains) / losses | 2 489 000 | (7 152 000) |
| | **13 963 000** | **3 923 000** |

### 7. Employee benefit obligations (continued)

**Post - employment medical aid benefit**

**Medical aid scheme arrangements**

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

**Contribution rate structures**

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

**Subsidy arrangements:**

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

| | 2016 | 2015 |
|---|---|---|
| **Changes in the present value of the post - employment medical aid benefit obligation are as follows:** | | |
| Opening balance | 56 456 000 | 56 567 000 |
| Benefits paid | (1 583 000) | (1 651 000) |
| Net expense recognised in the statement of financial performance | 11 559 000 | 1 540 000 |
| | **66 432 000** | **56 456 000** |

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

| | 2016 | 2015 |
|---|---|---|
| Current service cost | 3 579 000 | 3 193 000 |
| Interest cost | 5 193 000 | 5 335 000 |
| Actuarial (gains) losses | 2 787 000 | (6 988 000) |
| | **11 559 000** | **1 540 000** |

| Figures in Rand | 2016 | 2015 |
|---|---|---|

### 7. Employee benefit obligations (continued)

**Key assumptions used**

Assumptions used at the reporting date:

| | | |
|---|---|---|
| Discount rates used | 9,58 % | 9,57 % |
| Consumer price infation | 7,14 % | 7,10 % |
| Health care cost inflation | 8,64 % | 8,60 % |
| Net discount rate ((1+D) / (1+H) -1) | 0,87 % | - % |

**Discount rate:**

GRAP 25 defines the determination of the Discount rate assumption to be used as follows: "The discount rate that reflects the time value of money is best approximated by reference to market yield at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficient long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve".

Due to the guidance received form the auditing profession, the methodology of setting the financial assumptions, has been updated to be more duration specific. At the previous valuation date, 30 June 2015, the duration of the liabilities was 17.04 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2016 is 9.58% per annum, The assumed discount rate used at the previous valuation, 30 June 2016, was 9.58% per annum.

At 30 June 2016 the yield on inflation-linked bonds of a similar term was about 1.81% per annum. This implies an underlying expectation of inflation of 7.14% per year ({1+9.58%-0.50%] / [1+1.81%]-1), with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%).

Medical aid inflation:

A healthcare cost inflation rate of 8.64% was assumed. This is 1.50% in excess of the expected inflation over the expected term of the liability consistent with the prevours actuary.

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

**Mortality rates:**

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

Spouse and dependants:

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

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

**Other assumptions**

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

| | 1% decrease | 1% decrease |
|---|---|---|
| Effect on the post - employment medical aid benefit obligations | 56 455 000 | 67 200 000 |
| Effect on the service cost | 2 651 000 | 4 542 000 |
| Effect on the finance cost | 5 313 000 | 6 196 000 |

| Figures in Rand | 2016 | 2015 |
|---|---|---|

**7. Employee benefit obligations (continued)**

**Long service award benefit**

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

The following table illustrates the qualifying criteria:

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

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

| | 2016 | 2015 |
|---|---|---|
| Opening balance | 12 887 000 | 11 573 000 |
| Benefits paid | (1 202 000) | (1 069 000) |
| Net expense recognised in the statemnt of financial performance | 2 404 000 | 2 383 000 |
| | **14 089 000** | **12 887 000** |

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

| | 2016 | 2015 |
|---|---|---|
| Current service cost | 1 670 000 | 1 623 000 |
| Finance cost | 1 032 000 | 924 000 |
| Actuarial (gains) / Losess | (298 000) | (164 000) |
| | **2 404 000** | **2 383 000** |

| | 2016 | 2015 |
|---|---|---|
| Discount rates used | 8,80 % | 8,37 % |
| CPI | 6,51 % | 6,21 % |
| Salary increase rate | 7,51 % | 7,21 % |
| Net discount rate | 1,20 % | 1,08 % |

**Discount rate:**

GRAP 25 defines the determination of the Discount rate assumption to be used as follows: "The discount rate that reflects the time value of money is best approximated by reference to market yield at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficient long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve".

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

### 7. Employee benefit obligations (continued)

**Normal salary inflation:**

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

**Average retirement rate:**

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

**Normal retirement age:**

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

**Mortality rate:**

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

**Withdrawal decreasements:**

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

| **Age band** | Withdrawal rates |
|---|---|
| 20 | 16,50 % |
| 25 | 6,60 % |
| 30 | 5,10 % |
| 35 | 3,60 % |
| 40 | 2,60 % |
| 45 | 1,80 % |
| 50 | 1,10 % |

**Sensitivity analysis - Normal salary inflation**

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

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

| | 1% decrease | 1% increase |
|---|---|---|
| Employer's accrued liability | 13 145 000 | 12 002 000 |
| Employer's expense cost | 2 602 000 | 2 502 000 |
| | **15 747 000** | **14 504 000** |

**Sensitivity analysis - Mortality**

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

| | 30 June 2016 Valuation basis SA85-90 | SA85-90 (2 year effect) |
|---|---|---|
| Employer's accrued liability | 14 089 000 | 12 887 000 |
| Employer's expense cost | 2 801 000 | 2 702 000 |

# Notes to the Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

### 7. Employee benefit obligations (continued)

| | | |
|---|---|---|
| | **16 890 000** | **15 589 000** |

### 8. Sundry receivables

| | | |
|---|---|---|
| Under and over banking | 101 792 | 322 412 |
| R/D cheques control account | 1 263 863 | 1 363 541 |
| Other sundry receivables | 8 741 | 4 629 |
| | **1 374 396** | **1 690 582** |

**Sundry receivables pledged as security:**

None of the sundry receivables are pledged as security.

**Renegotiated terms:**

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

**Fair value of sundry receivables:**

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

**Collateral:**

The municipality does not hold any collateral as security.

### 9. Inventories

| | | |
|---|---|---|
| Water | 147 718 | 126 691 |
| Stores and materials | 308 385 | 430 202 |
| | **456 103** | **556 893** |
| Stock (losses) during the year | (100 651) | (70 323) |
| Inventories recognised as an expense during the year | 521 959 | 514 554 |

**Inventory pledged as security**

None of the inventory was pledged as security.

### 10. Receivables from exchange transactions

| | | |
|---|---|---|
| **Gross balances** | | |
| Electricity | 100 522 116 | 94 879 019 |
| Water | 157 748 880 | 118 227 017 |
| Sewerage | 83 132 861 | 73 643 431 |
| Refuse | 80 109 999 | 71 927 130 |
| Sundry receivables | 8 545 477 | 9 490 180 |
| | **430 059 333** | **368 166 777** |

| Figures in Rand | 2016 | 2015 |
|---|---|---|

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

| | | |
|---|---|---|
| **Less: Allowance for impairment** | | |
| Electricity | (74 905 217) | (76 331 698) |
| Water | (151 376 728) | (111 170 476) |
| Sewerage | (77 223 784) | (68 110 281) |
| Refuse | (75 320 478) | (67 100 016) |
| Sundry receivables | (6 409 732) | (6 280 556) |
| | **(385 235 939)** | **(328 993 027)** |

| | | |
|---|---|---|
| **Net balance** | | |
| Electricity | 25 616 898 | 18 547 321 |
| Water | 6 372 151 | 7 056 541 |
| Sewerage | 5 909 077 | 5 533 151 |
| Refuse | 4 789 520 | 4 827 114 |
| Sundry receivables | 2 135 745 | 3 209 624 |
| | **44 823 391** | **39 173 751** |

| | | |
|---|---|---|
| **Electricity** | | |
| Current (0 -30 days) | 8 857 280 | 11 407 986 |
| 31 - 60 days | 3 408 993 | 5 768 681 |
| 61 - 90 days | 3 282 643 | 3 264 867 |
| 91 - 120 days | 4 919 704 | 18 615 456 |
| 121 - 365 days | 33 842 038 | 11 105 983 |
| > 365 days | 46 211 458 | 44 716 046 |
| | **100 522 116** | **94 879 019** |

| | | |
|---|---|---|
| **Water** | | |
| Current (0 -30 days) | 7 064 405 | 4 812 220 |
| 31 - 60 days | 5 570 651 | 3 887 971 |
| 61 - 90 days | 4 345 353 | 12 688 455 |
| 91 - 120 days | 5 584 387 | 4 022 352 |
| 121 - 365 days | 43 773 214 | 3 381 771 |
| > 365 days | 91 410 869 | 89 434 247 |
| | **157 748 879** | **118 227 016** |

| | | |
|---|---|---|
| **Sewerage** | | |
| Current (0 -30 days) | 2 817 785 | 2 557 466 |
| 31 - 60 days | 2 227 364 | 2 061 249 |
| 61 - 90 days | 2 532 301 | 2 163 496 |
| 91 - 120 days | 2 125 940 | 1 791 601 |
| 121 - 365 days | 17 350 502 | 1 596 950 |
| > 365 days | 56 078 968 | 63 472 669 |
| | **83 132 860** | **73 643 431** |

| | | |
|---|---|---|
| **Refuse** | | |
| Current (0 -30 days) | 2 424 162 | 2 284 128 |
| 31 - 60 days | 2 069 064 | 1 982 310 |
| 61 - 90 days | 1 932 034 | 1 877 666 |
| 91 - 120 days | 2 021 272 | 1 783 421 |
| 121 - 365 days | 16 982 092 | 1 699 714 |
| > 365 days | 54 681 374 | 62 299 891 |
| | **80 109 998** | **71 927 130** |

# Notes to the Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

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

| **Sundry receivables** | | |
|---|---|---|
| Current (0 -30 days) | 2 140 778 | 3 599 401 |
| 31 - 60 days | 32 858 | 53 323 |
| 61 - 90 days | 24 481 | 60 531 |
| 91 - 120 days | 58 557 | 26 025 |
| 121 - 365 days | 954 112 | 64 111 |
| > 365 days | 5 334 694 | 5 686 788 |
| | **8 545 480** | **9 490 179** |

| **Reconciliation of allowance for impairment** | | |
|---|---|---|
| Balance at beginning of the year | (328 993 026) | (311 029 494) |
| Contributions to allowance | (56 242 914) | (17 963 532) |
| | **(385 235 940)** | **(328 993 026)** |

**Receivables pledged as security:**

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

**Renegotiated terms:**

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

**Fair value of receivables**:

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

### 11. Receivables from non-exchange transactions

| | | |
|---|---|---|
| **Gross balances** | | |
| Consumer receivables - Rates | 198 967 080 | 162 564 108 |
| **Less: Allowance for impairment** | | |
| Consumer receivables - Rates | (181 208 536) | (144 138 975) |
| **Net balance** | | |
| Consumer receivables - Rates | 17 758 545 | 18 425 133 |

**Aging of receivables from non-exchange transactions**

| **Consumer receivables - rates** | | |
|---|---|---|
| Current (0 -30 days) | 8 824 336 | 6 233 806 |
| 31 - 60 days | 6 702 443 | 5 422 907 |
| 61 - 90 days | 6 260 642 | 5 849 463 |
| 91 - 120 days | 5 849 463 | 7 241 888 |
| 121 - 365 days | 45 426 359 | 38 257 048 |
| > 365 days | 125 903 837 | 97 377 759 |
| | 198 967 080 | 160 382 871 |
| Less: Allowance for impairment | (181 208 536) | (144 138 975) |
| | **17 758 544** | **16 243 896** |

# Notes to the Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

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

| **Reconciliation of allowance for impairment** | | |
|---|---|---|
| Balance at beginning of the year | (144 138 976) | (120 117 917) |
| Contributions to allowance | (37 069 560) | (24 021 059) |
| | **(181 208 536)** | **(144 138 976)** |

**Receivables pledged as security:**

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

**Renegotiated terms:**

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

**Fair value of receivables:**

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

## 12. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---|---|---|
| Bank balances | 1 333 268 | 2 364 330 |
| Short-term deposits | 7 065 774 | 67 894 |
| Other cash and cash equivalents | 44 723 | 652 993 |
| | **8 443 765** | **3 085 217** |

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

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

**The municipality had the following bank accounts**

| **Account number / description** | **Bank statement balances** | | | **Cash book balances** | | |
|---|---|---|---|---|---|---|
| | **30 June 2016** | **30 June 2015** | **30 June 2014** | **30 June 2016** | **30 June 2015** | **30 June 2014** |
| ABSA BANK - Cheque account - 405-2707-733 | 1 338 408 | 2 309 550 | 2 705 056 | 1 333 268 | 2 364 330 | (1 136 551) |
| ABSA BANK - Call account - 925 3832 988 | 164 764 | 21 911 | 184 367 | 164 764 | 21 911 | 184 368 |
| ABSA BANK - CAll account - 925-3833-502 | 6 847 695 | 2 495 | 3 873 906 | 6 847 695 | 2 496 | 3 873 907 |
| ABSA BANK - Call account - 9250-3833-764 | 12 171 | 10 000 | 488 315 | 12 171 | 10 000 | 488 316 |
| ABSA BANK - Call account - 925 3835 643 | 1 648 | 1 569 | 23 382 | 1 648 | 1 569 | 23 382 |
| ABSA BANK - Cheque account - 113 000 0041 | (12 040) | 652 993 | 92 858 | 44 723 | 652 993 | 92 858 |
| ABSA BANK - Call account - 928 6271 086 | 25 571 | 2 539 | 2 283 507 | 25 571 | 2 539 | 2 283 507 |
| ABSA BANK - Call account - 928 6271 167 | 13 925 | 29 379 | 1 029 257 | 13 925 | 29 379 | 1 029 257 |
| **Total** | **8 392 142** | **3 030 436** | **10 680 648** | **8 443 765** | **3 085 217** | **6 839 044** |

| Figures in Rand | 2016 | 2015 |
|---|---|---|

## 13. Finance lease obligation

| | | |
|---|---|---|
| **Minimum lease payments due** | | |
| - within one year | 336 722 | 643 986 |
| - in second to fifth year inclusive | 379 661 | 705 032 |
| | 716 383 | 1 349 018 |
| less: future finance charges | (80 312) | (151 771) |
| **Present value of minimum lease payments** | **636 071** | **1 197 247** |

| | | |
|---|---|---|
| **Present value of minimum lease payments due** | | |
| - within one year | 280 592 | 562 917 |
| - in second to fifth year inclusive | 355 479 | 634 330 |
| | **636 071** | **1 197 247** |

| | | |
|---|---|---|
| Non-current liabilities | 353 745 | 634 330 |
| Current liabilities | 282 326 | 562 917 |
| | **636 071** | **1 197 247** |

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

The average lease term was 5 (2015: 5 - 6 years) years and the average effective borrowing rate was 10% (2015: 19%).

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

## 14. Unspent conditional grants and receipts

**Unspent conditional grants and receipts comprises of:**

| | | |
|---|---|---|
| **Unspent conditional grants and receipts** | | |
| Department of Mineral and Energy Grant (INEG) | 393 279 | 76 178 |
| Department of Water and Forestry Grant | 74 241 | - |
| Municipal Infrastructure Grant | 16 618 | 1 |
| Local Govermment Financial Management Grant | 13 695 | - |
| Municipal Systems Improvement Grant | 10 283 | - |
| | **508 116** | **76 179** |

**Movement during the year**

| | | |
|---|---|---|
| Balance at the beginning of the year | 76 179 | 5 638 482 |
| Additions during the year | 267 378 567 | 186 258 118 |
| Income recognition during the year | (266 946 630) | (191 820 421) |
| | **508 116** | **76 179** |

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

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

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

## Notes to the Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

### 15. Other financial liabilities

| | | |
|---|---|---|
| **At amortised cost** | | |
| DBSA Loan<br>Loan bears interest at 10% annually and penalty interest of 12% annually. Re-payments are done on a quarterly basis. | 3 646 942 | 6 304 007 |
| **Non-current liabilities** | | |
| At amortised cost | 1 465 238 | 4 122 303 |
| **Current liabilities** | | |
| At amortised cost | 2 181 704 | 2 181 704 |

### 16. Provisions

**Reconciliation of provisions - 2016**

| | Opening Balance | Additions | Total |
|---|---|---|---|
| Environmental rehabilitation | 191 279 221 | 22 294 773 | 213 573 994 |

**Reconciliation of provisions - 2015**

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

| | 2016 | 2015 |
|---|---|---|
| Non-current liabilities | 114 645 270 | 96 953 094 |
| Current liabilities | 98 928 724 | 94 326 127 |
| | **213 573 994** | **191 279 221** |

**Environmental rehabilitation provision**

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

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

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

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

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

| **Disposal site** | Opening balance | Movement | Closing balance |
|---|---|---|---|
| Edenville | 14 648 564 | 154 353 | 14 802 918 |
| Heilbron | 57 444 808 | (161 420) | 57 283 388 |
| Koppies | 5 439 604 | 14 749 452 | 20 189 056 |
| Parys | 91 513 490 | 2 942 725 | 94 456 215 |
| Vredefort | 22 232 755 | 4 609 663 | 26 842 419 |
| | **191 279 221** | **22 294 773** | **213 573 996** |

# Notes to the Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

## 17. Payables from exchange transactions

| | | |
|---|---|---|
| Trade payables | 653 352 991 | 489 274 952 |
| Payments received in advanced | 26 758 130 | 18 032 129 |
| Accrued leave pay | 14 086 329 | 14 142 011 |
| Accrued bonus | 3 832 302 | 3 877 296 |
| Deposits received | 194 411 | 189 255 |
| Other payables | 46 130 | 40 414 |
| Salary suspense account | 3 125 386 | 24 824 587 |
| Unallocated receipts | 6 087 | 1 596 290 |
| Retentions | 6 205 487 | 2 847 288 |
| | **707 607 253** | **554 824 222** |

## 18. Consumer deposits

| | | |
|---|---|---|
| Electricity and water - Parys | 3 404 521 | 3 520 898 |
| Electricity and water - Heilbron | 1 133 766 | 1 165 867 |
| Electricity and water - Vredefort | 449 779 | 454 207 |
| Electricity and water - Edenville | 70 881 | 72 260 |
| Electricity and water - Koppies | 275 054 | 266 143 |
| Electricity and water - Tumahole | 33 739 | 33 739 |
| | **5 367 740** | **5 513 114** |

## 19. Service charges

| | | |
|---|---|---|
| Sale of electricity | 126 031 439 | 121 261 873 |
| Sale of water | 51 684 863 | 46 687 719 |
| Sewerage and sanitation charges | 29 082 401 | 29 398 961 |
| Refuse removal | 25 989 839 | 26 739 072 |
| | **232 788 542** | **224 087 625** |

## 20. Rental of facilities and equipment

| | | |
|---|---|---|
| **Premises** | | |
| Premises | 766 066 | 1 174 112 |
| Airport hire | 17 219 | 16 614 |
| Venue hire | 14 335 | 21 739 |
| Camps | 26 045 | 26 045 |
| Buildings and housing | 182 139 | 189 080 |
| | **1 005 804** | **1 427 590** |
| **Facilities and equipment** | | |
| Rental of equipment | 2 952 | 6 572 |
| | **1 008 756** | **1 434 162** |

## 21. Fines

| | | |
|---|---|---|
| Fines - tampered meters | 481 481 | 708 687 |
| Fines - traffic | 281 144 | 196 842 |
| | **762 625** | **905 529** |

## Notes to the Financial Statements

| Figures in Rand | 2016 | 2015 |
| --- | --- | --- |

### 22. Other income

| | | |
| --- | --- | --- |
| Administration fees | 104 | 2 370 |
| Building plans and inspections | 111 261 | 76 318 |
| Clearance certificates | 89 670 | 101 700 |
| Reconnection / connection fees | 208 355 | 453 201 |
| Grave plots | 654 429 | 757 738 |
| Tender deposits | 110 613 | 113 893 |
| Sundry income | 165 234 | 75 250 |
| Sale of land | 356 162 | 469 630 |
| | **1 695 828** | **2 050 100** |

### 23. Investment revenue

| | | |
| --- | --- | --- |
| **Dividend revenue** | | |
| Dividends received (listed and unlisted shares) | 1 860 | 16 334 |
| **Interest revenue** | | |
| Other financial assets | 1 998 414 | 756 030 |
| Interest charged on trade and other receivables | 33 865 480 | 34 015 012 |
| | **35 863 894** | **34 771 042** |
| | **35 865 754** | **34 787 376** |

### 24. Property rates

**Rates received**

| | | |
| --- | --- | --- |
| Property rates charged | 101 632 955 | 98 893 844 |
| Less: Income forgone | (37 152 110) | (39 255 048) |
| | **64 480 845** | **59 638 796** |

**Valuations**

| | | |
| --- | --- | --- |
| Agriculture | 3 566 188 783 | 3 535 842 343 |
| Business | 208 398 481 | 193 970 680 |
| Churches | 72 958 510 | 71 853 510 |
| Government | 313 873 729 | 302 423 529 |
| Industrial | 26 625 300 | 26 625 300 |
| Municipal | 211 201 180 | 132 328 580 |
| Other | 840 000 | 840 000 |
| Public Service Infrustructure | 5 571 720 | 3 471 800 |
| Residents | 4 196 249 859 | 4 180 444 731 |
| Schools | 48 217 050 | 48 217 050 |
| Small Business | 9 889 100 | 9 889 100 |
| Undeveloped land | 12 602 051 | 12 229 301 |
| | **8 672 615 763** | **8 518 135 924** |

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

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

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

| Figures in Rand | 2016 | 2015 |
|---|---|---|

### 25. Government grants and subsidies

**Operating grants**

| | | |
|---|---|---|
| Equitable share | 186 904 000 | 116 834 000 |
| Local Government Finance Management Grant | 1 661 305 | 1 600 000 |
| LG Seta | 215 522 | - |
| Subsidy received from Provincial Treasury | 1 273 724 | 500 000 |
| | **190 054 551** | **118 934 000** |

**Capital grants**

| | | |
|---|---|---|
| Municipal Systems Improvement Grant | 919 717 | 934 000 |
| Expanded Public Works Programme | 1 097 000 | 1 000 000 |
| Integrated National Electrification Grant | 2 682 900 | 4 923 821 |
| Municipal Infrastructure Grant | 40 620 382 | 56 519 481 |
| Department of Water and Forestry Grant | 21 572 079 | 10 009 118 |
| Subsidy received from Provincial Treasury | 10 000 000 | - |
| | **76 892 078** | **73 386 420** |
| | **266 946 629** | **192 320 420** |

**Conditional and Unconditional**

Included in above are the following grants and subsidies received:

| | | |
|---|---|---|
| Unconditional grants received | 186 904 000 | 116 834 000 |
| Conditional grants received | 80 042 629 | 75 486 420 |
| | **266 946 629** | **192 320 420** |

**Equitable Share**

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

There was an amount of R51 million of equitable share that was withheld as at 30 June 2015 financial year due to non compliance.

| | | |
|---|---|---|
| Current year receipts | 186 904 000 | 116 834 000 |
| Conditions met - tranfer to revenue | (186 904 000) | (116 834 000) |
| | **-** | **-** |

**Integrated National Electrification Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 76 178 | - |
| Current-year receipts | 3 000 000 | 5 000 000 |
| Conditions met - transferred to revenue | (2 682 909) | (4 923 822) |
| | **393 269** | **76 178** |

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

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

**Department of Water and Forestry Grant**

| | | |
|---|---|---|
| Current-year receipts | 21 646 320 | 10 009 118 |
| Conditions met - transferred to revenue | (21 572 079) | (10 009 118) |

| Figures in Rand | 2016 | 2015 |
|---|---|---|

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

| | | |
|---|---|---|
| | **74 241** | **-** |

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

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

**Municipal Infrastructure Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | 5 638 481 |
| Current-year receipts | 40 637 000 | 50 881 000 |
| Conditions met - transferred to revenue | (40 620 382) | (56 519 481) |
| | **16 618** | **-** |

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

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

**LGSETA Grant**

| | | |
|---|---|---|
| Current-year receipts | 215 522 | - |
| Conditions met - transferred to revenue | (215 522) | - |
| | **-** | **-** |

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

**Local Government Financial Management Grant**

| | | |
|---|---|---|
| Current-year receipts | 1 675 000 | 1 600 000 |
| Conditions met - transferred to revenue | (1 661 305) | (1 600 000) |
| | **13 695** | **-** |

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

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

**Expanded Public Works Programme**

| | | |
|---|---|---|
| Current-year receipts | 1 097 000 | 1 000 000 |
| Conditions met - transferred to revenue | (1 097 000) | (1 000 000) |
| | **-** | **-** |

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

**Municipal Systems Improvement Grant**

| | | |
|---|---|---|
| Current-year receipts | 930 000 | 934 000 |
| Conditions met - transferred to revenue | (919 717) | (934 000) |

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

| | | |
|---|---|---|
| | **10 283** | **-** |

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

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

**Subsidy received from Provincial Treasury**

| | | |
|---|---|---|
| Current-year receipts | 11 273 724 | 500 000 |
| Conditions met - transferred to revenue (operating) | (1 273 724) | (500 000) |
| Conditions met - transferred to revenue (capital) | (10 000 000) | - |
| | - | - |

Provincial Treasury paid on behalf of Ngwathe for the intallation of water meters (capital) and also for a part of their audit fees owing to the Auditor General.

### 26. Employee related costs

| | | |
|---|---|---|
| Basic | 101 769 653 | 101 009 682 |
| Bonus | 7 621 109 | 7 720 020 |
| Medical aid - company contributions | 7 174 884 | 6 468 967 |
| UIF | 1 220 027 | 1 219 446 |
| Other payroll levies | 1 528 467 | 1 480 308 |
| Leave pay provision charge | 2 146 605 | 2 483 601 |
| Service cost - employee benefits | 5 249 000 | 4 816 000 |
| Overtime payments | 17 665 541 | 18 711 785 |
| Pension fund contributions | 18 040 282 | 17 858 451 |
| Car allowance | 4 540 347 | 4 464 332 |
| Housing benefits and allowances | 381 454 | 310 061 |
| Other allowances | 14 950 630 | 11 240 678 |
| Group life insurance | 1 355 275 | 1 324 512 |
| | **183 643 274** | **179 107 843** |

**Remuneration of Municipal Manager (Kamolane LD)**

| | | |
|---|---|---|
| Annual Remuneration | 401 177 | 830 660 |
| Car Allowance | 171 683 | 222 839 |
| Contributions to UIF, Medical and Pension Funds | 62 740 | 115 674 |
| | **635 600** | **1 169 173** |

**Remuneration of Acting Municipal Manager (Tsekedi PS)**

| | | |
|---|---|---|
| Annual Remuneration | 687 084 | - |
| Allowance | 115 230 | - |
| Contributions to UIF, Medical and Pension Funds | 140 706 | - |
| | **943 020** | **-** |

Mr Tsekedi has been acting as the Municipal Manager  from October 2015 to June 2016 and he is currectly still acting in the position.

# Notes to the Financial Statements

| Figures in Rand | 2016 | 2015 |
| --- | --- | --- |

## 26. Employee related costs (continued)

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

| | | |
| --- | --- | --- |
| Annual Remuneration | 46 326 | 411 722 |
| Car Allowance | 13 596 | 300 929 |
| Contributions to UIF, Medical and Pension Funds | 10 059 | 120 509 |
| | **69 981** | **833 160** |

Mrs Mkhuma acted for one month on the 2015/2016 financial year.

**Remuneration of Chief Financial Officer (Samyala N)**

| | | |
| --- | --- | --- |
| Annual Remuneration | 665 408 | - |
| Allowance | 143 147 | - |
| Contributions to UIF, Medical and Pension Funds | 9 435 | - |
| | **817 990** | **-** |

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

| | | |
| --- | --- | --- |
| Annual Remuneration | 695 852 | 600 433 |
| Car Allowance | 198 742 | 180 514 |
| Contributions to UIF, Medical and Pension Funds | 10 333 | 9 233 |
| | **904 927** | **790 180** |

**Remuneration of Director Community Services (Netshivhodza AB)**

| | | |
| --- | --- | --- |
| Annual Remuneration | 560 200 | 311 023 |
| Car Allowance | 287 756 | 174 032 |
| Contributions to UIF, Medical and Pension Funds | 63 344 | 33 672 |
| | **911 300** | **518 727** |

**Remuneration of Director Corporate Services (Majivolo ZJ)**

| | | |
| --- | --- | --- |
| Annual Remuneration | 431 319 | 411 722 |
| Car Allowance | 83 158 | 319 372 |
| Contributions to UIF, Medical and Pension Funds | 92 887 | 130 668 |
| | **607 364** | **861 762** |

Mr Majivolo has been acting as director corporate services from November 2015 to June 2016, he is currectly still acting on this position to date.

**Remuneration of Director Corporate Services (Tsekedi PS)**

| | | |
| --- | --- | --- |
| Annual Remuneration | 151 509 | 89 433 |
| Car Allowance | 36 449 | 52 481 |
| Contributions to UIF, Medical and Pension Funds | 45 803 | 29 568 |
| Other | - | - |
| | **233 761** | **171 482** |

## Notes to the Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

### 27. Remuneration of councillors

| | | |
|---|---|---|
| Executive Mayor | 813 163 | 743 223 |
| Mayoral Committee Members | 2 097 999 | 1 604 679 |
| Speaker | 650 900 | 599 174 |
| Councillors | 7 916 578 | 7 763 703 |
| | **11 478 640** | **10 710 779** |

### 27. Remuneration of councillors (continued)

**In-kind benefits**

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

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

The Executive Mayor has one full-time bodyguard.

**Details per councillor - 30 June 2016**

| | Annual remuneration and backpay | Allowances | Company contributions | Total |
| --- | --- | --- | --- | --- |
| Mochela MJ | 600 638 | 168 959 | 43 566 | 813 163 |
| Ndayi PR | 437 702 | 181 556 | 31 642 | 650 900 |
| Mandelstam G | 264 288 | 86 381 | - | 350 669 |
| Mopedi NP | 252 357 | 78 699 | 18 259 | 349 315 |
| Schoonwinkel A | 252 357 | 78 099 | 18 259 | 348 715 |
| Serathi M | 252 357 | 78 699 | 18 259 | 349 315 |
| Vandisi TL | 252 396 | 78 657 | 18 263 | 349 316 |
| Bocibo CN | 53 704 | 22 274 | 4 028 | 80 006 |
| Choni SP | 180 821 | 66 821 | 13 077 | 260 719 |
| De Beer VE | 183 049 | 78 655 | - | 261 704 |
| De Jager AJ | 183 349 | 78 355 | - | 261 704 |
| DE Jager SHF | 111 797 | 52 237 | - | 164 034 |
| Ferendale RS | 128 233 | 52 237 | - | 180 470 |
| Hlapane ML | 183 349 | 78 355 | - | 261 704 |
| Khumalo JK | 183 349 | 78 355 | - | 261 704 |
| Masooa MJ | 180 821 | 66 821 | 13 077 | 260 719 |
| Mbele MA | 180 821 | 66 821 | 13 077 | 260 719 |
| Mehlo LR | 180 821 | 66 821 | 13 077 | 260 719 |
| Modiko DV | 180 821 | 66 821 | 13 077 | 260 719 |
| Mofokeng MD | 182 541 | 78 156 | - | 260 697 |
| Mofokeng ML | 180 821 | 66 821 | 13 077 | 260 719 |
| Mofokeng MM | 180 821 | 66 821 | 13 077 | 260 719 |
| Molaphene PM | 183 349 | 78 355 | - | 261 704 |
| Molotsane RJ | 180 821 | 66 821 | 13 077 | 260 719 |
| Motsumi ME | 183 349 | 78 355 | - | 261 704 |
| Mthimkulu S | 61 116 | 26 118 | - | 87 234 |
| Mvulane L | 180 817 | 66 826 | 13 076 | 260 719 |
| Ndlovu NA | 180 821 | 66 821 | 13 077 | 260 719 |
| Oliphant AM | 180 821 | 66 821 | 13 077 | 260 719 |
| Radebe DM | 180 821 | 66 821 | 13 077 | 260 719 |
| Ramabitsa IM | 180 821 | 66 821 | 13 077 | 260 719 |
| Ranthako MC | 180 821 | 66 821 | 13 077 | 260 719 |
| Roos J | 26 944 | 13 059 | - | 40 003 |
| Scholtz F | 183 349 | 78 355 | - | 261 704 |
| Seabi IS | 26 944 | 13 059 | - | 40 003 |
| Sehumi NA | 183 349 | 78 355 | - | 261 704 |
| Serfontein C | 271 361 | 79 308 | - | 350 669 |
| Sothoane EC | 183 349 | 78 355 | - | 261 704 |
| Spence DI | 13 472 | 6 529 | - | 20 001 |
| Swart AP | 183 349 | 78 355 | - | 261 704 |
| Tlali LL | 180 821 | 66 821 | 13 077 | 260 719 |
| Van der Merwe PP | 183 349 | 72 237 | - | 255 586 |
| Vermaak SM | 180 821 | 66 821 | 13 077 | 260 719 |
| | **8 097 878** | **3 019 255** | **361 507** | **11 478 640** |

# Notes to the Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

### 27. Remuneration of councillors (continued)

**Details per councillor - 30 June 2015**

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

### 28. Depreciation and amortisation

| | 2016 | 2015 |
|---|---|---|
| Property, plant and equipment | 60 763 037 | 65 934 985 |

# Notes to the Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

## 29. Impairment of assets

| | | |
|---|---|---|
| **Impairments** | | |
| Property, plant and equipment | - | 213 219 |
| The main town hall in Heilbron was completely damaged by fire on 26 April 2015. Condition assesment of movable assets lower than anticipated | | |
| Trade and other receivables | 93 312 475 | 41 984 590 |
| The recoverable amount of trade and other receivables was calculated on a individual basis per receivable based on past payment trents and individual risk categories. The difference between the recoverable amount and the gross balance per receivable was impaired for. | | |
| | **93 312 475** | **42 197 809** |

The main classes of assets affected by impairment losses are:

Buildings
Furniture and fittings
IT equipment
Motor vehicles

The main events and circumstances that led to the recognition of these impairment losses are as follows:

Buildings damaged by fire, cause still under investigation.
Condition assesment of movable assets lower than anticipated.

## 30. Finance costs

| | | |
|---|---|---|
| Finance leases | 79 907 | 278 234 |
| Trade and other payables | 71 200 487 | 46 414 105 |
| Other financial liabilities | 542 935 | 870 300 |
| Late payment of tax | 3 052 004 | 4 889 595 |
| Employee benefits | 6 225 000 | 6 259 000 |
| | **81 100 333** | **58 711 234** |

## 31. Bad debts written off

| | | |
|---|---|---|
| Other bad debts written off | 26 846 582 | 52 333 827 |

## 32. Bulk purchases

| | | |
|---|---|---|
| Electricity | 156 118 013 | 138 969 514 |
| Water | 25 401 857 | 23 525 700 |
| | **181 519 870** | **162 495 214** |

## 33. Contracted services

| | | |
|---|---|---|
| Billing and meter reading fees | - | 633 742 |
| Security services | 1 360 105 | 1 792 555 |
| Other service contractors | - | 109 649 |
| | **1 360 105** | **2 535 946** |

| Figures in Rand | 2016 | 2015 |
|---|---|---|

### 34. General expenses

| | | |
|---|---|---|
| Accommodation cost | 601 599 | 825 565 |
| Advertising | 646 277 | 876 113 |
| Auditors remuneration | 3 198 613 | 4 789 282 |
| Bank charges | 1 148 441 | 833 602 |
| Cleaning | 398 379 | 430 257 |
| Commission paid | 1 057 439 | 173 290 |
| Consulting and professional fees | 9 606 280 | 4 608 521 |
| Donations | 165 000 | 195 000 |
| Entertainment | 470 639 | 158 084 |
| Annual report | - | 6 854 |
| Bursaries | 515 422 | 636 543 |
| Hire | 2 524 414 | 5 626 425 |
| Insurance | 3 506 924 | 2 675 879 |
| Rent - plant and vehicles | 3 791 756 | 3 104 746 |
| Legal fees | 4 290 568 | 3 230 956 |
| Project management unit expenditure | 2 002 950 | 1 994 044 |
| Fuel and oil | 2 815 947 | 2 835 213 |
| Postage and courier | 1 316 784 | 1 439 492 |
| Printing and stationery | 1 781 079 | 1 412 670 |
| Marketing | - | 195 |
| Protective clothing | 87 572 | 1 907 945 |
| Financial system (BCX) | 203 261 | 2 288 976 |
| Software expenses | 150 292 | 263 871 |
| Subscriptions and membership fees | 2 907 860 | 1 826 722 |
| Telephone and fax | 6 865 483 | 4 503 421 |
| Transport and freight | - | 134 002 |
| Training | 980 029 | 396 204 |
| Travel and subsistence | 741 982 | 822 534 |
| EPWP expenditure | 1 096 573 | 899 442 |
| LED projects | - | 587 388 |
| Arts and culture markets | - | 34 200 |
| Chemicals | 8 904 137 | 6 349 399 |
| Valuation roll expenses | 513 158 | 419 103 |
| Employee wellness | 7 749 | 17 055 |
| Youth development | 1 036 246 | 131 764 |
| Licenses | 238 512 | 169 630 |
| Grave digging | - | 458 357 |
| Rehabilitation cost - landfill site | 22 294 774 | 135 919 308 |
| Organisational development strategy | 286 508 | 18 200 |
| Lease rentals on operating leases | 7 064 906 | 5 145 539 |
| Other expenses | 5 227 383 | 4 776 653 |
| | **98 444 936** | **202 922 444** |

### 35. Repairs and maintenance

| | | |
|---|---|---|
| Repairs and maintenance | 10 048 009 | 27 739 257 |

### 36. Fair value adjustments

| | | |
|---|---|---|
| Property, plant and equipment | 5 757 809 | 6 848 710 |
| Other financial assets | | |
| • Other financial assets (Designated as at FV through P&L) | (36 036) | 80 113 |
| | **5 721 773** | **6 928 823** |

| Figures in Rand | 2016 | 2015 |
|---|---|---|

### 37. Auditors' remuneration

| | 2016 | 2015 |
|---|---|---|
| Fees | 3 198 613 | 4 789 282 |

### 38. Cash generated from operations

| | 2016 | 2015 |
|---|---|---|
| Deficit | (141 836 470) | (276 568 074) |
| **Adjustments for:** | | |
| Depreciation and amortisation | 60 763 037 | 65 934 985 |
| Assets written off | - | 1 113 245 |
| Fair value adjustments | (5 721 773) | (6 928 823) |
| Impairment of PPE and receivables | 93 312 475 | 42 197 809 |
| Bad debts written off | 26 846 582 | 52 333 827 |
| Movements in retirement benefits and employee provisions | 11 474 000 | 11 075 000 |
| Movements in provisions | 22 294 773 | 135 919 308 |
| Actuarial gains/losses | 2 489 000 | (7 152 000) |
| Inventories losses/write-downs | 100 962 | 70 323 |
| Interest adjustment to other financial assets | - | (2 853) |
| **Changes in working capital:** | | |
| Inventories | (172) | (72 992) |
| Receivables from exchange transactions | (88 739 136) | (76 587 802) |
| Receivables from non - exchange transactions | (36 402 972) | (28 128 418) |
| Sundry receivables | 316 185 | (734 379) |
| Payables from exchange transactions | 152 783 023 | 175 449 319 |
| VAT | (9 408 278) | (12 004 437) |
| Unspent conditional grants and receipts | 431 937 | (5 562 303) |
| Consumer deposits | (145 374) | 561 456 |
| | **88 557 799** | **70 913 191** |

### 39. Financial instruments disclosure

**Categories of financial instruments**

**2016**

**Financial assets**

| | At fair value | At cost | Total |
|---|---|---|---|
| Other financial assets | 403 326 | 446 265 | 849 591 |
| Receivables from exchange transactions | - | 44 823 391 | 44 823 391 |
| Receivables from non-exchange transactions | - | 17 758 545 | 17 758 545 |
| Cash and cash equivalents | - | 8 443 765 | 8 443 765 |
| Sundry receivables | - | 1 374 396 | 1 374 396 |
| | **403 326** | **72 846 362** | **73 249 688** |

**Financial liabilities**

| | At cost | Total |
|---|---|---|
| Other financial liabilities | 3 646 942 | 3 646 942 |
| Trade payables from exchange transactions | 707 607 253 | 707 607 253 |
| Consumer deposits | 5 367 740 | 5 367 740 |
| Unspent conditional grants and receipts | 508 116 | 508 116 |
| | **717 130 051** | **717 130 051** |

**2015**

**Financial assets**

| Figures in Rand | 2016 | 2015 |
|---|---|---|

### . Financial instruments disclosure (continued)

| | At fair value | At cost | Total |
|---|---|---|---|
| Other financial assets | 528 478 | 972 635 | 1 501 113 |
| Trade and other receivables from exchange transactions | - | 39 173 751 | 39 173 751 |
| Other receivables from non-exchange transactions | - | 18 425 133 | 18 425 133 |
| Sundry receivable | - | 1 690 581 | 1 690 581 |
| Cash and cash equivalents | - | 3 085 216 | 3 085 216 |
| | **528 478** | **63 347 316** | **63 875 794** |

**Financial liabilities**

| | At cost | Total |
|---|---|---|
| Other financial liabilities | 6 304 007 | 6 304 007 |
| Trade and other payables from exchange transactions | 554 824 222 | 554 824 222 |
| Consumer deposits | 5 513 114 | 5 513 114 |
| Unspent conditional grant and receipts | 76 179 | 76 179 |
| | **566 717 522** | **566 717 522** |

### 40. Commitments

**Authorised capital expenditure**

| | 2016 | 2015 |
|---|---|---|
| **Already contracted for but not provided for** | | |
| • Property, plant and equipment | 107 775 646 | 104 342 894 |
| | | |
| **Total capital commitments** | | |
| Already contracted for but not provided for | 107 775 646 | 104 342 894 |

**Total commitments**

| | 2016 | 2015 |
|---|---|---|
| **Total commitments** | | |
| Authorised capital expenditure | 107 775 646 | 104 342 894 |

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, existing cash resources, MIG allocations during the year and funds internally generated.

The commitment disclosed in the annual financial statements are inclusive of VAT.

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

| | 2016 | 2015 |
|---|---|---|
| **Minimum lease payments due** | | |
| - within one year | 1 010 576 | 1 020 753 |
| - in second to fifth year inclusive | 634 385 | 348 880 |
| | **1 644 961** | **1 369 633** |

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

### 41. Contingencies

The municipality has the following contingent liabilities and contingent assets:

Court proceedings:

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

| **SS Janika vs NLM (Case 1)** | | |
| --- | --- | --- |
| Opening balance | 40 000 | - |
| Contingent liability during the year | - | 40 000 |
| Adjustments during the year | 20 000 | - |
| | **60 000** | **40 000** |

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

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

Attorneys: JC Burger Attorneys

| **MM Magashule vs NLM (Case 2)** | | |
| --- | --- | --- |
| Contingent liability during the year | - | 9 703 |
| Adjustments during the year | - | 9 703 |
| | **-** | **19 406** |

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

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

Attorneys: JC Burger Attorneys

| **HND Labuschagne vs NLM (Case 3)** | | |
| --- | --- | --- |
| Litigation during the year | - | 5 058 |
| Adjustments during the year | - | (5 058) |
| | **-** | **-** |

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

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

Attorney: JC Burger Attorneys

| **Adcol Administrators vs NLM (Case 4)** | | |
| --- | --- | --- |
| Contingent liability during the year | - | 1 105 |
| Adjustments during the year | - | (1 105) |
| | **-** | **-** |

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

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

| Figures in Rand | 2016 | 2015 |
| --- | --- | --- |

**41. Contingencies (continued)**

Attorneys: JC Burger Attorneys

| **Mispha vs NLM (Case 5)** | | |
| --- | --- | --- |
| Opening Balance | - | 3 884 |
| Adjustments during the year | - | (3 884) |
| | **-** | **-** |

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

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

Attorneys: JC Burger Attorneys

| **Gerhard van der Merwe Attorneys vs NLM (Case 6)** | | |
| --- | --- | --- |
| Contingent liability during the year | - | 13 167 |
| Adjustments during the year | - | (13 167) |
| | **-** | **-** |

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

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

Attorneys: JC Burger Attorneys

| **Matolo / Makgele Attorneys vs NLM (Case 8)** | | |
| --- | --- | --- |
| Opening balance | 18 410 | - |
| Paid during the year (44336) | (18 410) | - |
| Adjustments during the year | - | 18 410 |
| | **-** | **18 410** |

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

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

Attorney: In-house

| **Concentrated Solutions vs NLM (Case 9)** | | |
| --- | --- | --- |
| Opening balance | 9 799 | - |
| Paid during the year (44336) | (9 799) | - |
| Adjustments during the year | - | 9 799 |
| | **-** | **9 799** |

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

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

Attorneys: In-house

| Figures in Rand | 2016 | 2015 |
| --- | --- | --- |

41. **Contingencies (continued)**

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

| | | |
| --- | --- | --- |
| Opening balance | 6 419 682 | - |
| Paid during the year (45137) | (1 760 524) | - |
| Adjustments during the year | (1 651 860) | 6 419 682 |
| | **3 007 298** | **6 419 682** |

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

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

Attorneys: In-house

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

| | | |
| --- | --- | --- |
| Contingent liability during the year | - | 1 179 300 |
| Adjustments during the year | - | (1 179 300) |
| | **-** | **-** |

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

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

Attorney: Motlatsi Seleke Attorneys

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

| | | |
| --- | --- | --- |
| Opening Balance | 2 013 580 | 2 013 580 |

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

The municipality pay the plaintiff R4 029 575 on 13 July 2007, the balance of the claim is still contested and the municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the case should be resolved within the next two years.

Attorneys: Mpoloane Attorneys

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

| | | |
| --- | --- | --- |
| Opening Balance | 13 830 | - |
| Contingent liability during the year | - | 13 830 |
| Paid during the year (43304) | (13 830) | - |
| | **-** | **13 830** |

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

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

Attorneys: Motlatsi Seleke Attorneys

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

| | | |
| --- | --- | --- |
| Opening Balance | 163 818 | - |
| Adjustments during the year | - | 163 818 |

| Figures in Rand | 2016 | 2015 |
| --- | --- | --- |

**41. Contingencies (continued)**

| | | |
| --- | --- | --- |
| | **163 818** | **163 818** |

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

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

Attorney: Morris Rasegoete Attorneys

| **Isintu Projects CC vs NLM (Case 27)** | | |
| --- | --- | --- |
| Opening Balance | 233 870 | 233 870 |
| Paid during the year | (233 870) | - |
| | **-** | **233 870** |

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

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

Attorneys: In-house

| **B McDermott vs NLM (Case 29)** | | |
| --- | --- | --- |
| Litigation during the year | - | 120 000 |
| Case withdrawn | - | (120 000) |
| | **-** | **-** |

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

The case was withdrawn by the plaintiff and therefore resolved.

Attorneys: Lebea Incorporated

| **Vincent Mokgosi vs NLM (Case 30)** | | |
| --- | --- | --- |
| Opening Balance | - | 3 600 |
| Finalised during the year | - | (3 600) |
| | **-** | **-** |

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

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

Attorney: JC Burger Attorneys

| **Mapetla Church congregations vs NLM (Case 34)** | | |
| --- | --- | --- |
| Opening Balance | 23 453 | 23 453 |
| Adjustments during the year | 76 864 | - |
| Paid during the year | (100 317) | - |
| **Closing balance** | **-** | **23 453** |

| Figures in Rand | 2016 | 2015 |
| --- | --- | --- |

**41. Contingencies (continued)**

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

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

Attorney: In-house

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

| | 2016 | 2015 |
| --- | --- | --- |
| Opening Balance | 521 380 | 521 380 |

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

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

Attorney: Moroka Attorneys

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

| | 2016 | 2015 |
| --- | --- | --- |
| Opening Balance | 45 201 | 44 020 |
| Adjustments during the year | - | 1 181 |
| Paid during the year (42417) | (45 201) | - |
| **Closing balance** | **-** | **45 201** |

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

The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the case should be resolved within the next year.

Attorney: ADW van den Berg Attorneys

**Sedgars vs NLM (Case 37)**

| | 2016 | 2015 |
| --- | --- | --- |
| Opening Balance | 139 204 | 139 204 |
| Adjustment for the year | (127 204) | - |
| **Closing balance** | **12 000** | **139 204** |

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

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

Attorney: Steyn Lyell & Maeyane Attorneys

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

| | 2016 | 2015 |
| --- | --- | --- |
| Opening Balance | 32 000 | 32 000 |

| Figures in Rand | 2016 | 2015 |
|---|---|---|

**41. Contingencies (continued)**

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

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

Attorney: In-house

| **JD Breytenbach vs NLM (Case 39)** | | |
|---|---|---|
| Opening Balance | - | 18 107 |
| Adjustments during the year | - | (18 107) |
| | **-** | **-** |

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

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

Attorneys: JC Burger

| **Busisiwe Mtimkulu vs NLM (Case 43)** | | |
|---|---|---|
| Opening Balance | 2 715 | 2 715 |
| New contingencies for the year | - | 109 180 |
| Payments made during the year | - | (109 180) |
| **Closing balance** | **2 715** | **2 715** |

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

The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the case should be resolved within the next two years. Partial payments was made during the year.

Attorneys: JC Burger

| **SAMWU obo Hlapane vs NLM (Case 44)** | | |
|---|---|---|
| Opening Balance | 400 000 | 400 000 |

Litigation is in the process against the municipality relating to the interpretation and application of the collective agreement and the complainant is seeking damages to the amount disclosed above.

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

Attorneys: ADW van den Berg Attorneys

| **Telkom vs NLM (Case 45)** | | |
|---|---|---|
| Opening Balance | 20 427 | 20 427 |
| Paid during the year | (20 176) | - |
| Adjustments during the year | 6 987 | - |
| | **7 238** | **20 427** |

| Figures in Rand | 2016 | 2015 |
|---|---|---|

**41. Contingencies (continued)**

Litigation is in the process against the municipality relating to damages caused to Telkom infrastructure and the complainant is seeking damages to the amount disclosed above.

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

Attorneys: ADW van den Berg Attorneys

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

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

Attorneys: Lebea and Associates

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

| | 2016 | 2015 |
|---|---|---|
| Opening Balance | 125 000 | 125 000 |

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

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

Attorneys: Lebea & Associates

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

| | 2016 | 2015 |
|---|---|---|
| Opening Balance | - | 563 699 |
| Payments during the year | - | (563 699) |
| **Closing balance** | **-** | **-** |

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

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

Attorneys: Rampai Attorneys

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

| | 2016 | 2015 |
|---|---|---|
| Opening Balance | 150 000 | 150 000 |

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

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

Attorney: In-house

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

| | 2016 | 2015 |
|---|---|---|
| Opening Balance | 16 994 | 16 994 |

| Figures in Rand | 2016 | 2015 |
|---|---|---|

**41. Contingencies (continued)**

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

The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the case should be resolved by September 2015.

Attorneys: Du Toit Mandelstam Incorporated

| **Sibongile Community Trust vs NLM (case no 52)** | | |
|---|---|---|
| Adjustment for the year | 50 000 | - |

Civil Letigation, No claims has been submitted as of yet, awaiting Setdown

The case is still active and waiting for plantiff

Attorneys:JC Burger Attorneys.

| **Cornelius Henry Harris vs NLM (Case no 53)** | | |
|---|---|---|
| Adjustment for the year | 40 000 | - |

Public liability claim, Damages motor cycle due to porthole and plaintiff is claiming damages occured

Judgement is in favour for the plaintiff however summons is still to be issued..

Attorneys:JC Burger Attorney

**42. Related parties**

| **Relationships** | |
|---|---|
| Members of key management | Refer to note 26 |
| Members of council | Refer to note 27 |

No related party transactions were identified by management.

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

**43. Prior period errors and reclassifications**

A number of prior period corrections and reclassifications were made to the audited 30 June 2015 financial statements, due to errors. A register containing the detail of all the corrections made as summarised below are available at the municipal offices.

**Statement of financial position**
Gross receivables from exchange transactionswere restated by R49,150,280,98 due to the departmental charges that were not offset against revenueand incorrect billing of consumer accounts and the net impact is zero on the 2015 financial year comparatives.

Gross receivable from non exchange transaction were restated by R3,125113,99 due to departmental charges not offset against revenue.

VAT receivable was restated by R6,301,487.00 due to payables, expenditure and revenue that were misstated in the 2015/2016 financial year

Investment property was restated by R49,892,755.01 due to incorrect accounting of RDP houses in to Ngwathe assets register.

**43. Prior period errors and reclassifications (continued)**

Property plant and equipment was restated by R88,757,411.01 due the re - take on of new properties plant and equipment register during the year.

Payables was restated by R9,653,800.32 due to expenditure that was not taken in to account in the 2015/2016 Financial year.

**Statement of financial performance**
Service charges were restated by R16,350,826,65 due to overbilling of consumer accounts in the 2013/2014 and 2014/2015 financial year

Property rates were restated by 1,431,756,57 due to departmental charges that were not offset against revenue.

Interest received were restated by R260,638.46 due interest that was charged on the departmental accounts.

Other income was restate by R20,680,16 due to departmental charges that were taken to other income account and not offset against revenue.

Impairment of assets were restated by R20,490,765,56 due to departmental charges not offset against revenue

Contracted services were restated by R15,900.00 due to expenditure that was not brought in to account in the 2014/2015 financial year.

General expenses were restated by R3,239,285,29 due to expenditure that was not taken in to account in the 2014/2015 financial year.

Repairs and maintenance were restated by R885,186.08 due to not taken in to account in the 2014/2015 Financial year.

Fair value adjustment was restated by 14,201,351.15 due to incorrect accounting of RDP houses that were still registered at Deeds office as Ngwathe vacant stands

Depreciation was restated by R8,970,220.83 due to incorrect accounting of private properties as Ngwathe properties.

**Disclosure**
Irregular expenditure of R31,606,494.00 was restated to R5,487,221.00 due to subsiquent investigations revealing that these amounts are not irregular.

**Reclassification**

Bad debt written off - An amount of R13,035,798 was reclassfied from indigents subsidies to service charges.

Provision for Landfill site for Koppies and Parys were reclassified from current liabilities to non current liabilities.

### 43. Prior period errors and reclassifications (continued)

| Statement of financial position | Audited 2015 figures | Reclassification | Prior period errors | Restated 2015 figures |
|---|---|---|---|---|
| **Assets** | | | | |
| Receivables from non-exchange transactions | 165 689 222 | - | (3 125 114) | 162 564 108 |
| Allowance for impairment | (147 264 089) | - | 3 125 114 | (144 138 975) |
| Receivables from exchange transactions | 414 191 944 | - | (46 025 167) | 368 166 777 |
| Allowance for impairment | (375 018 193) | - | 46 025 167 | (328 993 027) |
| VAT receivable | 14 998 639 | - | 6 301 487 | 21 300 126 |
| Investment PPE | 154 580 185 | - | (49 892 755) | 104 687 430 |
| Property, plant and equipment | 807 493 310 | - | (88 757 411) | 718 735 899 |
| **Liabilities** | | | | |
| Payables from exhange transactions | (545 170 422) | - | (9 653 800) | (554 824 222) |
| Provisions - current Liabilities | 191 279 221 | (96 953 094) | - | 94 326 127 |
| Provisions - non current Liabilities | - | 96 953 094 | - | 96 953 094 |
| **Net assets** | | | | |
| Accumulated surplus | 223 942 830 | - | 143 138 355 | 367 081 185 |
| | **904 722 647** | **-** | **1 135 876** | **905 858 522** |

| Statement of financial performance | Audited 2015 figures | Reclassification | Prior period errors | Restated 2015 figures |
|---|---|---|---|---|
| **Revenue** | | | | |
| Service charges | (253 121 413) | 12 682 961 | 16 350 827 | (224 087 625) |
| Other income | (2 070 781) | - | 20 680 | (2 050 101) |
| Interest received | (35 031 681) | - | 260 638 | (34 771 043) |
| Property rates | (61 423 391) | 352 837 | 1 431 757 | (59 638 797) |
| **Expenditure** | | | | |
| Depreciation and amortisation | 72 048 380 | - | (6 113 395) | 65 934 985 |
| Impairment of assets | 62 688 575 | - | (20 490 766) | 42 197 809 |
| Repairs and maintenance | 26 854 071 | - | 885 186 | 27 739 257 |
| Bad debts written off - Indigent subsidies | 5 508 527 | (5 508 527) | - | - |
| Bad debts written off - Other bad debt | 59 861 099 | (7 527 271) | - | 52 333 828 |
| Contracted services | 2 520 046 | - | 15 900 | 2 535 946 |
| General expenditure | 199 683 159 | - | 3 239 285 | 202 922 444 |
| **Other adjustments** | | | | |
| Fair value adjustments | (10 192 835) | - | 3 264 012 | (6 928 823) |
| | **67 323 756** | **-** | **(1 135 876)** | **66 187 880** |

### 44. Risk management

**Financial risk management**

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

### 44. Risk management (continued)

**Liquidity risk**

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

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

| At 30 June 2016 | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|
| Other financial liabilities | 2 181 704 | 1 465 238 | - | - |
| Payables from exchange transactions | 707 607 253 | - | - | - |
| Unspent conditional grants and receipts | 508 116 | - | - | - |

| At 30 June 2015 | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|
| Other financial liabilities | 2 181 704 | 4 122 303 | - | - |
| Payables from exchange transactions | 554 824 222 | - | - | - |
| Unspent conditional grants and receipts | 76 179 | - | - | - |

**Credit risk**

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

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

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

| Financial instrument | 2016 | 2015 |
|---|---|---|
| Receivables from exchange transactions | 44 823 391 | 39 173 751 |
| Receivables from non exchange transactions | 17 758 545 | 18 425 133 |
| Cash and cash equivalents | 8 443 765 | 3 085 216 |
| Other financial assets | 849 591 | 1 501 112 |

**Market risk**

**Interest rate risk**

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

### 45. Going concern

We draw attention to the fact that at 30 June 2016, the municipality incurred a deficits of R (141 836 468) for the year ending 30 June 2016 and the municipality's current liabilities exceed its current assets by R (714 672 259).

As at 30 June 2016, the municipality owed ESKOM R544 008 986 (2015: R386 211 700) and the Department of Water Affairs R63 899 036 (2015: R50 086 403).

| Figures in Rand | 2016 | 2015 |
| --- | --- | --- |

### 45. Going concern (continued)

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

### 46. Events after the reporting date

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

### 47. Unauthorised expenditure

| | 2016 | 2015 |
| --- | --- | --- |
| Opening balance | 139 339 772 | 549 446 839 |
| Add: Unathorised expenditure - current year | 177 095 143 | 266 727 757 |
| Less: Amounts written off | - | (676 834 824) |
| | **316 434 915** | **139 339 772** |

### 48. Fruitless and wasteful expenditure

| | 2016 | 2015 |
| --- | --- | --- |
| Opening balance | - | 78 660 399 |
| Add: Fruitless and wasteful expenditure - current year | 74 252 491 | 51 248 897 |
| Less: Amounts written off | - | (129 909 296) |
| | **74 252 491** | **-** |

| **Detail of fruitless and wasteful expenditure incurred in the current year** | 30 June 2016 | Total for 30 June 2016 |
| --- | --- | --- |
| Eskom (Interest) | 66 203 927 | 66 203 927 |
| Rand Water (Interest) | 86 211 | 86 211 |
| AGSA (Interest) | 125 460 | 125 460 |
| SALA Pension Fund ( Interest) | 14 297 | 14 297 |
| SARS - EMP (Penalties and interest) | 2 773 300 | 2 773 300 |
| SARS - VAT (Penalties and interest) | 278 704 | 278 704 |
| National funds for municipal workers (Interest) | 7 492 | 7 492 |
| OFS Pension Funds (Interest) | 2 808 | 2 808 |
| SAMWU Provident Fund (Interest) | 26 378 | 26 378 |
| Telkom (Interest) | 43 439 | 43 439 |
| Department of Water Affairs (Interest) | 4 690 349 | 4 690 349 |
| ABSA Bank (Interest) | 126 | 126 |
| | **74 252 491** | **74 252 491** |

### 49. Irregular expenditure

| | 2016 | 2015 |
| --- | --- | --- |
| Opening balance | 5 487 221 | 13 966 759 |
| Add: Irregular Expenditure - current year | 60 200 348 | 3 859 530 |
| Add: Irregular Expenditure - prior year (under investigation) | - | 5 487 221 |
| Less: Amounts written off | - | (17 826 289) |
| | **65 687 569** | **5 487 221** |

**Analysis of expenditure awaiting write-off per age classification**

| | 2016 | 2015 |
| --- | --- | --- |
| Current year | 60 200 348 | 5 487 221 |
| Prior years | 5 487 221 | - |
| | **65 687 569** | **5 487 221** |

| Figures in Rand | 2016 | 2015 |
|---|---|---|

### 49. Irregular expenditure (continued)

**Details of irregular expenditure – current year**

| | Irregular expenditure still under investigation | |
|---|---|---|
| Price: R10,001 to R29,999 | Non-compliance to the Supply Chain Policy | 3 903 089 |
| Price: R30,000 to R199,999 | Non-compliance to the Supply Chain Policy | 4 241 057 |
| Price: R200,000 and above | Non-compliance to the Supply Chain Policy | 52 056 202 |
| | | **60 200 348** |

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

**Contributions to organised local government**

| | 2016 | 2015 |
|---|---|---|
| Opening balance | 435 295 | 347 320 |
| Current year subscription / fee | 1 513 800 | 1 408 655 |
| | (1 466 780) | (1 320 680) |
| | **482 315** | **435 295** |

**Distribution losses**

Distribution losses incurred during the financial year:

Electricity R126,752,795 - 52% (2015: R64,106,909 - 46%)

Water - R0 - 0% (2015: R310,221,368 - 886%)

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

**Audit fees**

| | 2016 | 2015 |
|---|---|---|
| Opening balance | 6 005 719 | 3 791 345 |
| Current year subscription / fee | 3 621 179 | 5 457 228 |
| Interest charged | 125 460 | 362 617 |
| Amount paid - current year | (4 616 814) | (1 989 014) |
| Amount paid - previous years | (5 586 297) | (1 616 457) |
| | **(450 753)** | **6 005 719** |

**PAYE and UIF**

| | 2016 | 2015 |
|---|---|---|
| Opening balance | 19 862 413 | 26 749 488 |
| Current year subscription / fee | 26 727 721 | 24 931 114 |
| Amount paid - current year | (44 179 571) | (31 818 189) |
| | **2 410 563** | **19 862 413** |

**Pension and Medical Aid Deductions**

| | 2016 | 2015 |
|---|---|---|
| Opening balance | 3 681 234 | - |
| Current year subscription / fee | 21 788 957 | 24 748 084 |
| Amount paid - current year | (25 470 191) | (21 066 850) |
| | **-** | **3 681 234** |

**VAT**

| | 2016 | 2015 |
|---|---|---|
| VAT receivable | 30 708 404 | 21 300 126 |

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

**Councillors' arrear consumer accounts**

The following Councillors had arrear accounts outstanding for more than 90 days as at 30 June 2016:

| **30 June 2016** | **Outstanding more than 90 days R** |
|---|---|
| De Jager A | 12 181 |
| Ferendale D.A | 228 |
| Mofokeng M.D | 973 |
| Molapene P.M | 1 856 |
| Motsumi M.E | 19 886 |
| Mthimkulu S | 19 935 |
| Schoonwinkel A | 1 073 |
| Sothoane E.C | 4 243 |
| Swart A.P | 4 004 |
| Vandisi T.L | 2 080 |
| | **66 459** |

| **30 June 2015** | **Outstanding more than 90 days R** |
|---|---|
| Mandelstram GP | 2 621 |
| Mofokeng J | 698 |
| Molotsane AM | 1 003 |
| Ndlovu NA | 7 120 |
| Olifant AM | 1 560 |
| Seabi IM | 6 475 |
| Sothoane EC | 2 621 |
| Vandisi TL | 4 556 |
| | **26 654** |

### 51. Deviation from supply chain management regulations

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

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

The following list of transactions were deviated from the normal supply chain procedures but was approved by the accounting officer:

| **Category of service** | Amount for the 2016 financial year |
|---|---|
| Emergency serices | 204 376 |
| Sole provider | 208 853 |
| Specialised services | 23 782 |
| | **437 011** |

### 52. Budget differences

**Material differences between budget and actual amounts**

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

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

X2 - Municipality anticipated to cash all the investments during 30 June 2015 but they were unable to proceed with this intention due to lack of sufficient information requested from the policy holders hence the high amount of dividend was budget for, only Senwes shares were cashed in 30 June 2016 financial year end.

X3 - Municipality intended to sell the land during 30 June 2016 but the process was stopped by council.

X4 -The municipality has anticipated to collect more on its debtors hence less interest on late payment was budgetd for.

X5 -The Municipality did not take in account the supplementary valuation roll on property rate.

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

X7 - The Municipality Budget for the actual employee cost without taking in to account acting allowances on the key management and other positions.

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

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

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

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

X13 -Municipality budgeted for contracted services based on prior year contracts without evaluating the needs for the those services in the current financial year.

X14 - More provision on rehabilitation of landfill site. This is due to new rules and regulations as per engineers report.

X15 - The municipality anticipated to get more overdraft facilities for Eskom payments.

X16 - No budget was made for fair value adjustments.

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

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

X19 - Management did not take into account the impact of the impairment provision.

X20 - Management did not take into account the impact of the impairment provision.

X21 - Management budgeted to have less cash at hand at year end.

X22 - Management did not take into account the full impact of the depreciation charge.

X23 - Management could not invest more funds due to cashflow constraints.

X24 - Management did not take in to account the effect of subsidy from the provincial department for water metres and from the provincial subsidy for audit fees.

### 52. Budget differences (continued)

X25 - Management could not reduced the payables as budgeted for, due to cashflow constraints.

X26 - Management spend less on the remuniration of councillors due to the resignition of one councillor and death of 3 councillors.

X27 - Management did not take into account new legislation applicable to landfill sites when the provisions were budgeted for.

X28 - Management did not budget for these accounts.

X29 -Management budgeted higher due to long outstanding debts with Eskom, and water and department of water affairs.

X30 - Management did not take into account interest on receivables while determining the budgeted figure.

X31 - Management budgeted more on dividends.

X32 - The municipality budged to receive more income based on the fines that will be charged on tempered metres as per the Eskom meter verification projects for all the Ngwathe Local Municipality.

X33 - The Municipality has budgeted more on payables with the intestion of reducing the Eskom,Rand water and Department of water creditors and other long oustanding creditors.

X34 - Management did not take in to account the effects of interest on late payment while budgeting for finance cost.

X35 - No transfer off grants did incur as budgeted for.

X36 - Management anticipated to buy and refurbish more property, plant and equipment in the current year.

X37 - Management settled the other financial liabilities as budgeted for.

X38 - Management did not budget for finance lease payments

X39 - Management did not budget for employee benefit obligations.

X40 - The municipality intended to sell more electricity hence more money was budgeted on bulk purchases.