



**NEWCASTLE MUNICIPALITY**  
Annual Financial Statements  
for the year ended 30 June 2014

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## General Information

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### Mayoral committee

Councillors

Cllr AF Rehman - Mayor  
Cllr RN Mdluli - Deputy Mayor  
Cllr MF Zikhali - Speaker  
Cllr NP Kunene - EXCO Member  
Cllr TZ Hadebe - EXCO Member  
Cllr SBM Lukhele - EXCO Member  
Cllr RD Ndimba - EXCO Member  
Cllr BS Ntombela - EXCO Member  
Cllr M Shunmugam - EXCO Member  
Cllr JA Vorster - EXCO Member  
Cllr VV Bam  
Cllr MM Bhekiswayo  
Cllr MV Buhali  
Cllr DRF Buthelezi  
Cllr SSE Buthelezi  
Cllr EJC Cronje  
Cllr JME Damons  
Cllr TJ De Jager  
Cllr CL Dube  
Cllr DX Dube - MPAC  
Cllr JK Gabuza - MPAC  
Cllr FP Gama  
Cllr TS Hlabisa - MPAC  
Cllr MME Hlatshwayo  
Cllr SB Hlatshwayo  
Cllr I Keeka - MPAC  
Cllr LG Khoza  
Cllr CB Khubheka  
Cllr HS Madonsela - MPAC  
Cllr HT Malindi  
Cllr AMM Mashinini  
Cllr NS Mathews  
Cllr JS Mbatha  
Cllr ZJ Mbatha  
Cllr MN Mbokazi  
Cllr Mdlhalose  
Cllr CN Mkhize  
Cllr HN Mkhwanazi  
Cllr MG Mlangeni  
Cllr MS Mlangeni - MPAC  
Cllr GA Mncube - MPAC  
Cllr NA Msibi  
Cllr T Mzoneli  
Cllr SG Ndlovu  
Cllr ME Ngobo  
Cllr NJ Ngobese  
Cllr CL Nhlapo  
Cllr DJZ Nkosi

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## General Information

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	Cllr NT Ntshangase - MPAC
	Cllr EM Nyembe
	Cllr TM Nzuze
	Cllr DO Shabalala
	Cllr DM Sibilwane
	Cllr DE Tshabalala - MPAC
	Cllr SJ Zulu
	Cllr TM Zulu
	Cllr EM Zungu
	Cllr ME Zwane
	Cllr NA Zwane - MPAC
<b>Grading of local authority</b>	7
<b>Accounting Officer</b>	Mr K Masange
<b>Chief Finance Officer (CFO)</b>	Mr SLG Dube (Acting CFO)
<b>Registered office</b>	27 Murchison Street Newcastle 2940
<b>Business address</b>	27 Murchison Street Newcastle 2940
<b>Postal address</b>	Private Bag X 6621 Newcastle 2940
<b>Bankers</b>	First National Bank
<b>Auditors</b>	Auditor General South Africa

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

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

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# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2015 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

The annual financial statements set out on pages 5 to 87, which have been prepared on the going concern basis, were approved by the accounting officer on 29 August 2014 and were signed on its behalf by:

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**Mr K Masange**  
Accounting Officer

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Financial Position as at 30 June 2014

Figures in Rand	Note(s)	2014	2013 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	8	12 439 141	6 907 956
Other financial assets	9	3 015 328	6 673 997
Receivables from exchange transactions	10	24 012 946	27 892 114
Receivables from non-exchange transactions	11	8 580 963	6 586 075
VAT receivable	12	34 801 284	68 070 371
Consumer debtors	13	522 181 845	325 961 776
Non-current assets held for sale	14	8 745 488	7 632 000
Cash and cash equivalents	15	327 907 203	351 863 529
		<b>941 684 198</b>	<b>801 587 818</b>
<b>Non-Current Assets</b>			
Investment property	3	273 695 000	174 448 593
Property, plant and equipment	4	2 349 860 723	1 638 272 509
Intangible assets	5	1 348 001	913 426
Heritage assets	6	2 904 899	2 791 339
Investments in associates	7	154 822 299	819 008 493
		<b>2 782 630 922</b>	<b>2 635 434 360</b>
<b>Total Assets</b>		<b>3 724 315 120</b>	<b>3 437 022 178</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Financial liabilities	16	20 979 603	7 992 190
Finance lease obligation	17	509 592	191 531
Payables from exchange transactions	18	307 727 211	201 332 544
Consumer deposits	19	10 027 543	9 974 703
Unspent conditional grants and receipts	20	44 948 444	104 964 600
Defined benefit plan obligations	21	4 425 946	3 437 863
		<b>388 618 339</b>	<b>327 893 431</b>
<b>Non-Current Liabilities</b>			
Financial liabilities	16	221 003 266	62 868 405
Finance lease obligation	17	231 853	6 470
Defined benefit plan obligations	21	93 802 319	106 938 046
Provision for landfill rehabilitation costs	22	25 860 274	22 923 190
		<b>340 897 712</b>	<b>192 736 111</b>
<b>Total Liabilities</b>		<b>729 516 051</b>	<b>520 629 542</b>
<b>Net Assets</b>		<b>2 994 799 069</b>	<b>2 916 392 636</b>
<b>Reserves</b>			
Housing Development Fund		27 802 096	26 548 794
Insurance reserve		7 095 715	6 804 366
Accumulated surplus		2 959 901 258	2 883 039 476
<b>Total Net Assets</b>		<b>2 994 799 069</b>	<b>2 916 392 636</b>

\* See Note 43

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013 Restated*
<b>Revenue</b>			
Service charges	24	798 616 634	731 455 268
Rental of facilities and equipment		4 639 974	3 677 190
Other income		3 838 031	1 848 237
Sundry sales		647 921	633 283
Fee income		3 516 359	4 844 071
Interest received		25 518 310	94 392 883
Property rates	25	175 478 677	156 249 490
Government grants & subsidies	26	434 932 499	387 955 623
Fines		9 022 484	7 685 753
<b>Total revenue</b>		<b>1 456 210 889</b>	<b>1 388 741 798</b>
<b>Expenditure</b>			
Employee costs	27	(353 488 528)	(254 085 135)
Remuneration of councillors	28	(18 190 799)	(17 224 741)
Depreciation and amortisation	29	(252 321 047)	(260 083 473)
Impairment of assets		(10 469 528)	(33 038 271)
Finance costs	30	(11 325 408)	(7 411 820)
Debt impairment	31	11 177 793	(282 580 701)
Collection costs		(10 597 688)	(10 568 640)
Repairs and maintenance		(68 790 647)	(70 121 432)
Bulk purchases	32	(435 608 308)	(437 276 210)
Contracted services	33	(48 648 945)	(26 091 088)
General Expenses	34	(223 243 393)	(163 300 934)
<b>Total expenditure</b>		<b>(1 421 506 498)</b>	<b>(1 561 782 445)</b>
<b>Operating surplus (deficit)</b>		<b>34 704 391</b>	<b>(173 040 647)</b>
Share of deficit in investment in associates	7	(14 248 537)	(50 075 859)
Gain/(loss) on disposal of assets		12 604 396	(3 834 162)
Fair value adjustments to investment property	3	102 474 407	-
Impairment of investment in associates		(97 644 480)	(179 294 688)
Gains/(loss) on actuarial valuation	21	23 189 640	(20 964 933)
		<b>26 375 426</b>	<b>(254 169 642)</b>
<b>Surplus (deficit) for the year</b>		<b>61 079 817</b>	<b>(427 210 289)</b>

\* See Note 43

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Changes in Net Assets

Figures in Rand	Development Fund	Insurance reserve	Total reserves	Accumulated surplus	Total net assets
Opening balance as previously reported	24 885 398	6 454 794	31 340 192	3 294 607 284	3 325 947 476
Adjustments					
Correction of error	-	-	-	15 642 481	15 642 481
<b>Balance at 01 July 2012 as restated*</b>	<b>24 885 398</b>	<b>6 454 794</b>	<b>31 340 192</b>	<b>3 310 249 765</b>	<b>3 341 589 957</b>
Changes in net assets					
Deficit for the year	-	-	-	(427 210 289)	(427 210 289)
Transfer to Housing Development Fund	1 663 396	-	1 663 396	-	1 663 396
Transfer to Insurance reserve	-	349 572	349 572	-	349 572
Total changes	1 663 396	349 572	2 012 968	(427 210 289)	(425 197 321)
Balance at 01 July 2013	26 548 794	6 804 366	33 353 160	2 883 039 476	2 916 392 636
Correction of prior period errors (Refer to note 57)	-	-	-	15 781 965	15 781 965
Surplus for the year	-	-	-	61 079 817	61 079 817
Transfer to Housing Development Fund	1 253 302	-	1 253 302	-	1 253 302
Transfer to Insurance reserve	-	291 349	291 349	-	291 349
Total changes	1 253 302	291 349	1 544 651	61 079 817	62 624 468
<b>Balance at 30 June 2014</b>	<b>27 802 096</b>	<b>7 095 715</b>	<b>34 897 811</b>	<b>2 959 901 258</b>	<b>2 994 799 069</b>

\* See Note 43

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Cash Flow Statement

Figures in Rand	Note(s)	2014	2013 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		809 054 063	1 132 184 447
Grants		434 932 499	387 955 623
Interest received		17 184 549	22 586 528
		<u>1 261 171 111</u>	<u>1 542 726 598</u>
<b>Payments</b>			
Employee costs		(330 826 267)	(245 559 219)
Suppliers		(702 390 686)	(945 700 008)
Finance costs		(11 325 408)	(7 411 820)
		<u>(1 044 542 361)</u>	<u>(1 198 671 047)</u>
<b>Net cash flows from operating activities</b>	40	<u><b>216 628 750</b></u>	<u><b>344 055 551</b></u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(991 129 741)	(630 491 439)
Proceeds from sale of property, plant and equipment		12 640 221	8 320 234
Movements in Investment in Associates	6	664 186 194	185 782 040
		<u>(314 303 326)</u>	<u>(436 389 165)</u>
<b>Net cash flows from investing activities</b>		<u><b>(314 303 326)</b></u>	<u><b>(436 389 165)</b></u>
<b>Cash flows from financing activities</b>			
Net movements in long term loans		171 122 274	2 411 120
Movement in provision for landfill rehabilitation costs		2 937 084	428 868
Movement on finance lease		543 444	(187 533)
Movements on defined benefit plan		(12 147 644)	29 115 810
Movement in Reserves		(88 736 908)	(19 743 194)
		<u>73 718 250</u>	<u>12 025 071</u>
<b>Net cash flows from financing activities</b>		<u><b>73 718 250</b></u>	<u><b>12 025 071</b></u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u><b>(23 956 326)</b></u>	<u><b>(80 308 543)</b></u>
Cash and cash equivalents at the beginning of the year		<u>351 863 529</u>	<u>432 172 072</u>
<b>Cash and cash equivalents at the end of the year</b>	15	<u><b>327 907 203</b></u>	<u><b>351 863 529</b></u>

\* See Note 43

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual
Figures in Rand					
<b>Statement of Financial Performance</b>					
<b>Revenue</b>					
<b>Revenue from exchange transactions</b>					
Service charges	874 211 306	-	<b>874 211 306</b>	798 616 634	<b>(75 594 672)</b>
Rental of facilities and equipment	5 889 549	-	<b>5 889 549</b>	4 639 974	<b>(1 249 575)</b>
Other income	-	-	-	3 838 031	<b>3 838 031</b>
Sundry sales	3 003	-	<b>3 003</b>	647 921	<b>644 918</b>
Fee income	7 918 299	3 271 187	<b>11 189 486</b>	3 516 359	<b>(7 673 127)</b>
Interest received	47 435 635	(22 964 603)	<b>24 471 032</b>	25 518 310	<b>1 047 278</b>
<b>Total revenue from exchange transactions</b>	<b>935 457 792</b>	<b>(19 693 416)</b>	<b>915 764 376</b>	<b>836 777 229</b>	<b>(78 987 147)</b>
<b>Revenue from non-exchange transactions</b>					
Property rates	179 311 150	-	<b>179 311 150</b>	175 478 677	<b>(3 832 473)</b>
Government grants & subsidies	290 200 983	8 450 906	<b>298 651 889</b>	434 932 499	<b>136 280 610</b>
<b>Transfer revenue</b>					
Fines	2 570 188	-	<b>2 570 188</b>	9 022 484	<b>6 452 296</b>
<b>Total revenue from non-exchange transactions</b>	<b>472 082 321</b>	<b>8 450 906</b>	<b>480 533 227</b>	<b>619 433 660</b>	<b>138 900 433</b>
<b>Total revenue</b>	<b>1 407 540 113</b>	<b>(11 242 510)</b>	<b>1 396 297 603</b>	<b>1 456 210 889</b>	<b>59 913 286</b>
<b>Expenditure</b>					
Personnel	(294 219 894)	(81 289 238)	<b>(375 509 132)</b>	(353 488 528)	<b>22 020 604</b>
Remuneration of councillors	(19 029 520)	2 250 930	<b>(16 778 590)</b>	(18 190 799)	<b>(1 412 209)</b>
Depreciation and amortisation	(229 530 401)	(63 797 502)	<b>(293 327 903)</b>	(252 321 047)	<b>41 006 856</b>
Impairment loss/ Reversal of impairments	-	-	-	(10 469 528)	<b>(10 469 528)</b>
Finance costs	(16 365 969)	5 936 124	<b>(10 429 845)</b>	(11 325 408)	<b>(895 563)</b>
Debt impairment	(90 148 511)	-	<b>(90 148 511)</b>	11 177 793	<b>101 326 304</b>
Collection costs	(12 588 215)	348 071	<b>(12 240 144)</b>	(10 597 688)	<b>1 642 456</b>
Repairs and maintenance	(95 834 117)	16 564 856	<b>(79 269 261)</b>	(68 790 647)	<b>10 478 614</b>
Bulk purchases	(400 000 000)	-	<b>(400 000 000)</b>	(435 608 308)	<b>(35 608 308)</b>
Contracted Services	(62 172 675)	-	<b>(62 172 675)</b>	(48 648 945)	<b>13 523 730</b>
General Expenses	(276 760 707)	53 976 112	<b>(222 784 595)</b>	(223 243 393)	<b>(458 798)</b>
<b>Total expenditure</b>	<b>(1 496 650 009)</b>	<b>(66 010 647)</b>	<b>(1 562 660 656)</b>	<b>(1 421 506 498)</b>	<b>141 154 158</b>
<b>Operating surplus</b>	<b>(89 109 896)</b>	<b>(77 253 157)</b>	<b>(166 363 053)</b>	<b>34 704 391</b>	<b>201 067 444</b>
Loss on disposal of assets and liabilities	-	-	-	(14 248 537)	<b>(14 248 537)</b>
Profit on disposal of assets	-	-	-	12 604 396	<b>12 604 396</b>
Fair value adjustment to investment property	-	-	-	102 474 407	<b>102 474 407</b>
Loss on non-current assets held for sale or disposal groups	-	-	-	(97 644 480)	<b>(97 644 480)</b>
Gain on actuarial valuation	-	-	-	23 189 640	<b>23 189 640</b>
	-	-	-	<b>26 375 426</b>	<b>26 375 426</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual
Figures in Rand					
<b>Surplus before taxation</b>	<b>(89 109 896)</b>	<b>(77 253 157)</b>	<b>(166 363 053)</b>	<b>61 079 817</b>	<b>227 442 870</b>
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>(89 109 896)</b>	<b>(77 253 157)</b>	<b>(166 363 053)</b>	<b>61 079 817</b>	<b>227 442 870</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual
Figures in Rand					
<b>Statement of Financial Position</b>					
<b>Assets</b>					
<b>Current Assets</b>					
Inventories	7 147 616	(7 147 616)	-	12 439 141	12 439 141
Other financial assets	27 390 000	(17 390 000)	10 000 000	3 015 328	(6 984 672)
Receivables from exchange transactions	106 290 000	(106 290 000)	-	24 012 946	24 012 946
Receivables from non-exchange transactions	-	-	-	8 580 964	8 580 964
VAT receivable	-	-	-	34 801 284	34 801 284
Consumer debtors	801 281 985	(326 386 408)	474 895 577	522 181 844	47 286 267
Non-current assets held for sale	-	-	-	8 745 488	8 745 488
Cash and cash equivalents	289 116 000	(81 936 000)	207 180 000	327 907 203	120 727 203
	<b>1 231 225 601</b>	<b>(539 150 024)</b>	<b>692 075 577</b>	<b>941 684 198</b>	<b>249 608 621</b>
<b>Non-Current Assets</b>					
Investment property	176 608 000	(5 359 000)	171 249 000	273 695 000	102 446 000
Property, plant and equipment	1 781 053 519	361 161 375	2 142 214 894	2 349 860 723	207 645 829
Intangible assets	701 000	212 000	913 000	1 348 001	435 001
Heritage assets	2 130 000	(2 130 000)	-	2 904 899	2 904 899
Investments in associates	980 846 000	63 313 351	1 044 159 351	154 822 299	(889 337 052)
	<b>2 941 338 519</b>	<b>417 197 726</b>	<b>3 358 536 245</b>	<b>2 782 630 922</b>	<b>(575 905 323)</b>
<b>Total Assets</b>	<b>4 172 564 120</b>	<b>(121 952 298)</b>	<b>4 050 611 822</b>	<b>3 724 315 120</b>	<b>(326 296 702)</b>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Financial liabilities	27 219 000	(17 219 000)	10 000 000	20 979 603	10 979 603
Finance lease obligation	-	-	-	509 592	509 592
Payables from exchange transactions	100 000 000	(100 000 000)	-	307 727 211	307 727 211
Consumer deposits	9 983 000	14 181	9 997 181	10 027 543	30 362
Unspent conditional grants and receipts	-	103 000 000	103 000 000	44 948 444	(58 051 556)
Defined benefit plan obligations	5 323 000	(1 885 137)	3 437 863	4 425 946	988 083
	<b>142 525 000</b>	<b>(16 089 956)</b>	<b>126 435 044</b>	<b>388 618 339</b>	<b>262 183 295</b>
<b>Non-Current Liabilities</b>					
Financial liabilities	190 140 725	17 557 680	207 698 405	221 003 266	13 304 861
Finance lease obligation	-	-	-	231 853	231 853
Defined benefit plan obligations	68 960 000	37 978 046	106 938 046	93 802 319	(13 135 727)
Provision for landfill rehabilitation costs	22 494 322	428 868	22 923 190	25 860 274	2 937 084
	<b>281 595 047</b>	<b>55 964 594</b>	<b>337 559 641</b>	<b>340 897 712</b>	<b>3 338 071</b>
<b>Total Liabilities</b>	<b>424 120 047</b>	<b>39 874 638</b>	<b>463 994 685</b>	<b>729 516 051</b>	<b>265 521 366</b>
<b>Net Assets</b>	<b>3 748 444 073</b>	<b>(161 826 936)</b>	<b>3 586 617 137</b>	<b>2 994 799 069</b>	<b>(591 818 068)</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual
Figures in Rand					
<b>Net Assets</b>					
<b>Net Assets Attributable to Owners of Controlling Entity</b>					
<b>Reserves</b>					
Housing Development Fund	23 853 000	2 695 794	<b>26 548 794</b>	27 802 096	<b>1 253 302</b>
Insurance reserve	6 454 794	349 572	<b>6 804 366</b>	7 095 715	<b>291 349</b>
Accumulated surplus	3 718 136 279	(164 872 302)	<b>3 553 263 977</b>	2 959 901 258	<b>(593 362 719)</b>
<b>Total Net Assets</b>	<b>3 748 444 073</b>	<b>(161 826 936)</b>	<b>3 586 617 137</b>	<b>2 994 799 069</b>	<b>(591 818 068)</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual
Figures in Rand					
<b>Cash Flow Statement</b>					
<b>Cash flows from operating activities</b>					
<b>Receipts</b>					
Sale of goods	904 075 000	-	904 075 000	908 491 099	4 416 099
Grants	415 216 000	-	415 216 000	457 514 773	42 298 773
Interest received	17 436 000	-	17 436 000	11 182 146	(6 253 854)
	<b>1 336 727 000</b>	<b>-</b>	<b>1 336 727 000</b>	<b>1 377 188 018</b>	<b>40 461 018</b>
<b>Payments</b>					
Employee costs and payments to suppliers	(1 098 955 000)	-	(1 098 955 000)	(1 141 456 057)	(42 501 057)
Finance costs	(16 366 000)	-	(16 366 000)	(10 267 795)	6 098 205
	<b>(1 115 321 000)</b>	<b>-</b>	<b>(1 115 321 000)</b>	<b>(1 151 723 852)</b>	<b>(36 402 852)</b>
<b>Net cash flows from operating activities</b>	<b>221 406 000</b>	<b>-</b>	<b>221 406 000</b>	<b>225 464 166</b>	<b>4 058 166</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	(409 699 000)	-	(409 699 000)	(975 259 915)	(565 560 915)
Proceeds from sale of property, plant and equipment	-	-	-	15 425 395	15 425 395
Movement in Investment in Associate	-	-	-	531 689 883	531 689 883
<b>Net cash flows from investing activities</b>	<b>(409 699 000)</b>	<b>-</b>	<b>(409 699 000)</b>	<b>(428 144 637)</b>	<b>(18 445 637)</b>
<b>Cash flows from financing activities</b>					
Repayment of financial liabilities	138 198 000	-	138 198 000	170 064 661	31 866 661
Movement in provision for landfill rehabilitation costs	-	-	-	2 937 084	2 937 084
Movement in finance leases	-	-	-	543 444	543 444
Movement in defined benefit plan	-	-	-	(12 147 644)	(12 147 644)
Movement in reserves	-	-	-	17 326 600	17 326 600
<b>Net cash flows from financing activities</b>	<b>138 198 000</b>	<b>-</b>	<b>138 198 000</b>	<b>178 724 145</b>	<b>40 526 145</b>
Net increase/(decrease) in cash and cash equivalents	(50 095 000)	-	(50 095 000)	(23 956 326)	26 138 674
Cash and cash equivalents at the beginning of the year	347 515 000	-	347 515 000	351 863 529	4 348 529
<b>Cash and cash equivalents at the end of the year</b>	<b>297 420 000</b>	<b>-</b>	<b>297 420 000</b>	<b>327 907 203</b>	<b>30 487 203</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. Final budget council approved policy)	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>2014</b>										
<b>Financial Performance</b>										
Property rates	179 311 150	-	179 311 150	-		179 311 150		(3 832 473)	98 %	98 %
Service charges	874 211 306	-	874 211 306	-		874 211 306		(75 594 672)	91 %	91 %
Investment revenue	47 435 635	(22 964 603)	24 471 032	-		24 471 032		1 047 278	104 %	54 %
Government grants & subsidies	290 200 983	8 450 906	298 651 889	-		298 651 889		136 280 610	146 %	150 %
Other own revenue	16 381 039	3 271 187	19 652 226	-		19 652 226		2 012 543	110 %	132 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>1 407 540 113</b>	<b>(11 242 510)</b>	<b>1 396 297 603</b>	<b>-</b>		<b>1 396 297 603</b>		<b>59 913 286</b>	<b>104 %</b>	<b>103 %</b>
Employee costs	(294 219 894)	(81 289 238)	(375 509 132)	-	-	(375 509 132)		22 020 604	94 %	120 %
Remuneration of councillors	(19 029 520)	2 250 930	(16 778 590)	-	-	(16 778 590)		(1 412 209)	108 %	96 %
Debt impairment	(90 148 511)	-	(90 148 511)			(90 148 511)		101 326 304	(12)%	(12)%
Depreciation and asset impairment	(229 530 401)	(63 797 502)	(293 327 903)			(293 327 903)		30 537 328	90 %	114 %
Finance charges	(16 365 969)	5 936 124	(10 429 845)	-	-	(10 429 845)		(895 563)	109 %	69 %
Materials and bulk purchases	(400 000 000)	-	(400 000 000)	-	-	(400 000 000)		(35 608 308)	109 %	109 %
Other expenditure	(447 355 714)	70 889 039	(376 466 675)	-	-	(376 466 675)		25 186 002	93 %	79 %
<b>Total expenditure</b>	<b>(1 496 650 009)</b>	<b>(66 010 647)</b>	<b>(1 562 660 656)</b>	<b>-</b>	<b>-</b>	<b>(1 562 660 656)</b>		<b>141 154 158</b>	<b>91 %</b>	<b>95 %</b>
<b>Surplus/(Deficit)</b>	<b>(89 109 896)</b>	<b>(77 253 157)</b>	<b>(166 363 053)</b>	<b>-</b>		<b>(166 363 053)</b>		<b>201 067 444</b>	<b>(21)%</b>	<b>(39)%</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. Final budget council approved policy)	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Other comprehensive income	-	-	-	-		26 375 426		26 375 426	DIV/0 %	DIV/0 %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>(89 109 896)</b>	<b>(77 253 157)</b>	<b>(166 363 053)</b>	-		<b>61 079 817</b>		<b>227 442 870</b>	<b>(37)%</b>	<b>(69)%</b>
<b>Surplus/(Deficit) for the year</b>	<b>(89 109 896)</b>	<b>(77 253 157)</b>	<b>(166 363 053)</b>	-		<b>61 079 817</b>		<b>227 442 870</b>	<b>(37)%</b>	<b>(69)%</b>
<b>Cash flows</b>										
Net cash from (used) operating	221 406 000	-	221 406 000	-		216 628 750		(4 777 250)	98 %	98 %
Net cash from (used) investing	409 699 000	-	409 699 000	-		(314 303 326)		(724 002 326)	(77)%	(77)%
Net cash from (used) financing	138 198 000	-	138 198 000	-		73 718 250		(64 479 750)	53 %	53 %
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>769 303 000</b>	<b>-</b>	<b>769 303 000</b>	-		<b>(23 956 326)</b>		<b>(793 259 326)</b>	<b>(3)%</b>	<b>(3)%</b>
Cash and cash equivalents at the beginning of the year	347 515 000	-	347 515 000	-		351 863 529		4 348 529	101 %	101 %
<b>Cash and cash equivalents at year end</b>	<b>1 116 818 000</b>	<b>-</b>	<b>1 116 818 000</b>	-		<b>327 907 203</b>		<b>788 910 797</b>	<b>29 %</b>	<b>29 %</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand.

#### 1.2 Assets under construction

The cost of property, plant and equipment that is under construction as of the reporting date is recognised as an asset if:  
(a) it is probable that future economic benefits or service potential associated with the item(s) will flow to the municipality, and  
(b) the cost or fair value of the item(s) can be measured reliably.

Assets under construction consists of expenditure for the construction of buildings, certain land improvements, infrastructure assets and networks and any other capital projects that are under construction as of the reporting date. Expenditure comprises direct labour, materials and overheads, if appropriate.

When assets under construction are completed and certificates of completion issued, they are transferred to the appropriate asset class.

Asset under construction are not depreciated as they are not in a condition necessary for it to be capable of operating in a manner intended by management.

#### 1.3 Investment property

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

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

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes is accounted for as property, plant and equipment.

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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.3 Investment property (continued)

#### 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.

It is the municipality's accounting policy to assess the change in fair value of investment property every three (3) years.

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.

### 1.4 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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

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 are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

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

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

Item	Average useful life
Land	Indefinite
Buildings	80 years
Infrastructure	
• Roads and Paving	80 years
• Bridges	80 years
• Storm water	50 years
• Electrical substation	30 years
• Fencing	20 years
• Layering	20 years
• Electrical mains	20 years
• Containers	10 years
• Power station	60 years
• Reticulation	25 years
• Electricity transformers	30 years
• Underground lines	45 years
• Electricity panels	5 years
• Street lighting	25 years
• Telementary	7 years
• Overhead lines	30 years
• Cable	45 years
Community	
• Clinic and health facilities	30 years
• Stadiums	80 years
• Security system	5 years
Other property, plant and equipment	
• Honey sucker tanker	10 years
• Bins and containers	10 years
• Emergency equipment	10 years
Heritage	
• Buildings	80 years
• Museums	80 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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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

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

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

### 1.5 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.

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited 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
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) 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; and
- (c) 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 end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

The municipality accounts for and measures landfill assets using the cost model.

### 1.6 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.6 Intangible assets (continued)

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

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

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

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

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

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

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

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

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 goodwill is not recognised as an intangible asset.

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

<b>Item</b>	<b>Useful life</b>
Computer software	5 years

Intangible assets are derecognised:

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

### 1.7 Heritage assets

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

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

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

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

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

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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.7 Heritage assets (continued)

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

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

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

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

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

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

### Recognition

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

### Initial measurement

If the initial accounting for heritage assets is incomplete at the end of the accounting period which the Standard becomes effective or the transfer occurs, whichever is later, the entity shall report in its financial statements provisional amounts for those heritage assets for which the accounting is incomplete. During the measurement period, the entity shall retrospectively adjust the provisional amounts recognised to reflect information obtained about facts and circumstances that existed on the effective date of the Standard in accordance with paragraph 121.

The municipality adopted the Accounting Standard for heritage assets in 2012.

### Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

### Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.8 Investments in associates

An associate is an entity in which the investor has significant influence and which is neither a controlled nor a joint venture of the investor. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies. The municipality exercises judgement in the context of all available information to determine if it has significant influence over an investee.

The municipality commences accounting for an investment in an associate from the date significant influence exists and discontinues the application of the equity method when it no longer has significant influence over an associate. Investments that are retained in whole or in part are subsequently accounted for in accordance with the accounting policies on subsidiaries, joint ventures or financial instruments depending on the nature of the retained investment.

The municipality accounts for investment in associate under the equity method in the financial statements. The equity method involves recognising the investment initially at cost, then adjusting for any changes in the investors share of net assets since acquisition. A single line item in the Statement of Financial Performance presents the investors share of the associate's surplus or deficit for the year.

The municipality uses the most recent available financial statements of the associate in applying the equity method. Where the reporting periods of the associate and the municipality are different, separate financial statements for the same period are prepared by the associate unless it is impracticable to do so. When the reporting dates are different, the municipality makes adjustments to the effect of any significant events or transactions between the investor and the associate that occur between the associate and the municipality. Adjustments are made to ensure consistency between the accounting policies of the municipality and associate.

### 1.9 Financial instruments

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

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

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

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

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

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

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.9 Financial instruments (continued)

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

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

A financial asset is:

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

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

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

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

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

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

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

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

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

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

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

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

- equity instruments or similar forms of 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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

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### 1.9 Financial instruments (continued)

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.

#### 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.

#### 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 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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.9 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.

#### Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

#### Gains and losses

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

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

#### Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.9 Financial instruments (continued)

#### Derecognition

##### Financial assets

The entity derecognises a financial asset only when:

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

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

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

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

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

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

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

##### Financial liabilities

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

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

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).

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.9 Financial instruments (continued)

#### Presentation

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

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

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

### 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.

#### 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.

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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.11 Inventories (continued)

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

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

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

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

### 1.12 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

### 1.13 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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

- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

#### Identification

When the carrying amount of a 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.

#### 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.

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

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

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

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

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

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

# Newcastle Municipality

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

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

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

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

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

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

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

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

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

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

Useful life is either:

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

### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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

#### Reversal of an impairment loss

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

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

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

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

#### Redesignation

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

### 1.15 Conditional grants and receipts

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

### 1.16 Budget information

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

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

The approved budget is prepared on an accrual basis.

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

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

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

### 1.17 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

### 1.18 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

# Newcastle Municipality

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## Accounting Policies

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### 1.19 Transfer of functions

The Municipality has assumed assets and liabilities from UThukela Water (Proprietary) Limited as of 01 July 2013. In order to account for and fairly present the take-over of assets and liabilities assumed the Municipality has developed an accounting policy which follows the provisions and Transitional provisions of GRAP106 and Directive 3 respectively as summarised below:

#### Definition of a function

A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving an entity's objectives, by either providing economic benefits (increased sales, cash flow, net income) or service potential (anticipated future benefits to be obtained from an asset).

#### Recognition and measurement principles

For transfer of functions between entities not under common control, all identifiable assets acquired and liabilities assumed by the acquirer should be measured at acquisition-date fair values.

The assets acquired or transferred and the liabilities assumed or relinquished must be part of what had been agreed in terms of the binding arrangement, rather than the result of separate transactions. The acquirer and acquiree should determine which assets are acquired or transferred and which liabilities are assumed or relinquished as part of a transfer of functions and which, if any, are the result of separate transactions to be accounted for in accordance with their nature and the applicable standard of GRAP.

#### Identifying the acquirer

Where a transfer of functions is effected by transferring cash, other assets or incurring liabilities, the entity transferring the cash or other assets or who incurs the liabilities is usually the acquirer.

Where a transfer of functions is effected by transferring cash, other assets or incurring liabilities, the entity transferring the cash or other assets or who incurs the liabilities is usually the acquirer.

Where a transfer is brought about through the exchange of residual interests, the acquirer will be the entity that does not experience a change in control.

#### Acquisition date

The acquisition date is the date where the acquirer obtains control over the acquiree. The binding arrangement may specify an effective date for the transfer of functions. There may however be cases where the acquirer obtains control over the acquiree on a date that is earlier or later than the date on which the assets and liabilities are transferred by the acquiree, or specified in the binding arrangement.

#### Recognition and measurement

The identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the Framework for the Preparation and Presentation of Financial Statements and the recognition criteria in the applicable standards of GRAP at the acquisition date.

The identifiable assets acquired and liabilities assumed must be part of what was agreed by in the binding arrangement between the acquirer and the acquiree.

Under the binding arrangement, the acquirer should have an enforceable claim over the acquiree either, to relinquish control of the entity, or over the assets and liabilities of the function to be transferred.

#### Recognising and measuring the difference between the assets acquired and liabilities assumed

If the initial accounting of a transfer of functions is incomplete at the end of the reporting period, the identifiable assets acquired and liabilities assumed, for which the accounting is incomplete, should be recognised at their provisional amounts, which is the carrying values.

### 1.20 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:

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.20 Employee benefits (continued)

- 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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.20 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.

#### 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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.20 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

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

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

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

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

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

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

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

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

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

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

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

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.20 Employee benefits (continued)

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

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

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

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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

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

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

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

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.20 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.

#### Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

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

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

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

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.20 Employee benefits (continued)

#### Termination benefits

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

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

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

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

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

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

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

### 1.21 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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.21 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.

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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.21 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 1.13 and 1.14.

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.

### 1.22 Revenue from exchange transactions

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

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

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

#### Measurement

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.22 Revenue from exchange transactions (continued)

#### Sale of goods

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

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

#### Rendering of services

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

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

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

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

### 1.23 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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

#### Recognition

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.

#### 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.

#### Services in-kind

Services in-kind are not recognised.

### 1.24 Investment income

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

### 1.25 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

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

### 1.26 Insurance fund

The insurance fund is used to fund the payment of insurance excesses in respect of insurance claims submitted.

The insurance fund is accounted for at net of cost, and any liability thereto, and adjustments are made only where there are valid claims to the fund.

### 1.27 Comparative figures

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

### 1.28 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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.29 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.

### 1.30 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial and which was condoned 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 condonement 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 condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority 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 condoned 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.

### 1.31 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements.

Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

### 1.32 Capital commitments

Capital commitments are approved and contracted for when a tender is awarded to a contractor and a valid contract has been signed by both the Accounting Officer and contractor.

Capital commitments are approved but not yet contracted for are those capital projects are appropriated in the capital budget and which are approved by council. These are municipal capital projects for which the tendering process has not commenced and therefore not yet allocated to a contractor through competitive bidding process.

### 1.33 Related parties

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.33 Related parties (continued)

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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand 2014 2013

### 2. New standards and interpretations

#### 2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2014 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after
GRAP 105: Transfers of functions between entities under common control	01 April 2014
GRAP 106: Transfers of functions between entities not under common control	01 April 2014
GRAP 107: Mergers	01 April 2014
GRAP 20: Related parties	01 April 2014
IGRAP 11: Consolidation – Special purpose entities	01 April 2014
IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2014
GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2014
GRAP 7 (as revised 2010): Investments in Associates	01 April 2014
GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2014
GRAP32: Service Concession Arrangements: Grantor	01 April 2014
GRAP108: Statutory Receivables	01 April 2014
IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2014

### 3. Investment property

	2014			2013		
	Cost / Valuation	Fair value adjustments	Carrying value	Cost / Valuation	Fair value adjustments	Carrying value
Investment property	171 220 593	102 474 407	273 695 000	174 448 593	-	174 448 593

#### Reconciliation of investment property - 2014

	Opening balance	Disposals	Transfers	Impairments	Fair value adjustments	Total
Investment property	174 448 593	(283 000)	(2 945 000)	(89 036 593)	191 511 000	273 695 000

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand 2014 2013

### 3. Investment property (continued)

#### Reconciliation of investment property - 2013

	Opening balance	Disposals	Transfers	Investment property recognised as a result of correction of error	Total
Investment property	182 768 593	(3 870 000)	(7 650 000)	3 200 000	174 448 593

#### Details of valuation

The Municipality has not pledged investment properties as security.

The value of all municipal properties is R273 695 000 (2013: R171 248 593).

Investment properties values were adjusted by R102 474 407 which was recognised in surplus and deficit in the current year by comparison of property values reflected in the asset register to the latest General Valuation Roll.

Municipal properties were valued by a professional appraiser, i.e. e-Valuations to value all properties in the municipal area.

In 2013, Investment properties were reflected as R171 248 593 which was determined by a professional appraiser, i.e. "The Valuator", GGSA The Valuator (Proprietary) Limited, independent of the Municipality.

#### Property values were determined using the following bases:

For properties such as vacant land, residential properties, farms etc, a comparative sales method of valuation was used which considered properties similar in size, improvements, physical condition, locality and used for the same purposes of the subject property which were sold as close to the valuation date.

For rent producing properties, the Capitalisation of Income Method was used to determine the value of properties which considered the locality, the condition of the property, the type and strength of the tenant, the terms and length of the lease and the state of the property market at valuation date.

For properties such as churches, sports complexes, local authority buildings, police stations, libraries, public gardens etc which do not have an active market, a Depreciated Replacement Method of valuation was used to determine property values.

For municipal properties that are considered un-saleable which are comprised of cemeteries, roads, parking areas, public servitudes and small remainders of land a nominal value was applied and added to the Depreciated Replacement Cost value.

A detailed register of Investment Properties held by the Municipality is available for inspection at the Municipal Offices, situated at 37 Murchinson Street.

Amounts recognised in surplus and deficit for the year.

Fair value adjustment to investment property	102 474 407	-
Rental revenue from investment property	1 004 254	847 830

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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### 4. Property, plant and equipment

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation restated	Accumulated depreciation and accumulated impairment	Carrying value restated
Land	68 218 381	(10 399 489)	57 818 892	62 783 747	(5 730 803)	57 052 944
Buildings	73 503 598	(28 333 617)	45 169 981	71 913 328	(26 580 410)	45 332 918
Infrastructure	2 574 359 263	(1 086 006 377)	1 488 352 886	1 894 818 910	(859 571 448)	1 035 247 462
Community	104 465 133	(22 649 236)	81 815 897	93 592 680	(19 852 924)	73 739 756
Work in progress	597 908 609	-	597 908 609	359 239 862	-	359 239 862
Finance lease assets	1 175 738	(406 674)	769 064	401 360	(212 234)	189 126
Other property, plant and equipment	153 795 605	(75 770 211)	78 025 394	116 783 505	(49 313 064)	67 470 441
<b>Total</b>	<b>3 573 426 327</b>	<b>(1 223 565 604)</b>	<b>2 349 860 723</b>	<b>2 599 533 392</b>	<b>(961 260 883)</b>	<b>1 638 272 509</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

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

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

	Opening balance	Additions	Additions acquired through transfer of functions	Transfers	Depreciation	Impairment loss	Impairment reversal	Total
Land	57 052 945	5 434 632	-	-	(4 668 685)	-	-	57 818 892
Buildings	45 332 917	-	-	1 590 271	(2 184 944)	-	431 737	45 169 981
Infrastructure	1 035 247 463	46 181	562 825 867	116 668 304	(226 421 567)	(25 250)	11 888	1 488 352 886
Community	73 739 756	373 445	-	10 499 008	(3 345 512)	-	549 200	81 815 897
Work in progress	359 239 862	379 271 217	-	(140 602 470)	-	-	-	597 908 609
Finance lease assets	189 126	774 378	-	-	(194 440)	-	-	769 064
Other property, plant and equipment	67 470 441	29 234 522	8 742 023	(706 479)	(15 221 310)	(11 493 803)	-	78 025 394
	<b>1 638 272 510</b>	<b>415 134 375</b>	<b>571 567 890</b>	<b>(12 551 366)</b>	<b>(252 036 458)</b>	<b>(11 519 053)</b>	<b>992 825</b>	<b>2 349 860 723</b>

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

	Opening balance	Additions	Assets recognised which were previously not recognised	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	74 993 536	3 172 311	-	-	(15 382 100)	(5 730 803)	-	57 052 944
Buildings	65 498 959	331 389	28 091 500	-	(39 249 895)	(1 904 449)	(7 434 586)	45 332 918
Infrastructure	877 107 841	44 216 179	327 190 000	(598 072)	8 935 640	(196 874 628)	(24 729 498)	1 035 247 462
Community	4 596 234	1 047 487	40 244 000	-	31 807 117	(3 137 595)	(817 487)	73 739 756
Work in progress	195 595 557	163 644 305	-	-	-	-	-	359 239 862
Finance lease assets	383 678	-	-	-	-	(194 552)	-	189 126
Other property, plant and equipment	46 080 335	18 760 215	-	-	13 889 238	(11 259 347)	-	67 470 441
	<b>1 264 256 140</b>	<b>231 171 886</b>	<b>395 525 500</b>	<b>(598 072)</b>	<b>-</b>	<b>(219 101 374)</b>	<b>(32 981 571)</b>	<b>1 638 272 509</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand 2014 2013

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

#### Pledged as security

There were no assets pledged as security.

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.

#### Transitional provisions

#### Due to a transfer of functions

Property, plant and equipment with a carrying value of R571 567 890 (carrying value at 30 June 2014: R537 394 532) was transferred to Newcastle Municipality from UThukela Water (Proprietary) Limited on 01 July 2013. Property, plant and equipment were recognised at provisional amounts due to the the transfer of functions. Refer to Note 1.19

### 5. Intangible assets

	2014			2013		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	2 097 323	(749 322)	1 348 001	1 378 195	(464 769)	913 426

#### Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Computer software	913 426	719 128	(284 553)	1 348 001

#### Reconciliation of intangible assets - 2013

	Opening balance	Additions	Amortisation	Total
Computer software	655 699	554 130	(296 403)	913 426

### 6. Heritage assets

	2014			2013		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Museums, painting and artifacts	2 904 899	-	2 904 899	2 791 339	-	2 791 339

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand 2014 2013

### 6. Heritage assets (continued)

#### Reconciliation of heritage assets 2014

	Opening balance	Additions	Impairment losses reversed	Total
Museums, painting and artifacts	2 791 339	56 860	56 700	2 904 899

#### Reconciliation of heritage assets 2013

	Opening balance	Additions	Impairment losses recognised	Total
Museums, painting and artifacts	2 808 116	39 923	(56 700)	2 791 339

### 7. Investments in associates

	%	%	Carrying amount 2014	Carrying amount 2013
UThukela Water (Proprietary) Limited	34,00 %	34,00 %	154 822 299	819 008 493

In terms of the intervention instituted by the Provincial Executive of KwaZulu-Natal in terms of Section 139(1)(a) of the Constitution of South Africa, 1996, the Newcastle Municipality with the effect of 01 July 2013, be responsible for the Water Service Authority function previously assumed by the Provincial Executive of KwaZulu-Natal and uThukela Water (Proprietary) Limited as the Water Service Provider established by the Umzinyathi District, the Amajuba District and Newcastle Local Municipalities.

The effect of this meant that the Newcastle Municipality together with the other parent municipalities of uThukela Water (Proprietary) Limited resumed the water retail and regionalization of the bulk water service function as of 01 July 2013.

The effect on the investment in associate account balance as a result of the transfer of assets and liabilities from UThukela Water (Proprietary) Limited are reflected in note 52.

This investment is disclosed in the annual financial statements using the equity method as described in GRAP 7 as follows:

#### Movements in carrying value

Opening balance	819 008 493	1 004 790 566
Correction of prior period error (Refer to Note 43)	-	(21 854 248)
Correction of bulk water purchases capitalised in 2013 (Refer to Note 43)	-	(53 632 958)
Share of surplus/(deficit) (Refer to Note 52)	(14 248 538)	(50 075 859)
Contributions to associate (Refer to Note 52)	-	119 075 680
Impairment of investment (Refer to Note 43)	(97 644 480)	(179 294 688)
Assets and liabilities transferred from associate (Refer to Note 52)	(552 293 176)	-
	<u>154 822 299</u>	<u>819 008 493</u>

#### UThukela Water Annual Financial Statements

Assets	598 802 124	2 630 407 643
Equity	(455 359 703)	(2 408 848 510)
Liabilities	(143 442 421)	(221 559 133)
	<u>(598 802 124)</u>	<u>(2 630 407 643)</u>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>8. Inventories</b>		
Water stock	664 722	-
Consumable stores	11 919 983	6 907 956
	<u>12 584 705</u>	<u>6 907 956</u>
Provision for impairment of inventory	(145 564)	-
	<u>12 439 141</u>	<u>6 907 956</u>

In the current year obsolete and damaged inventories were impaired. Write down of inventories is pending Council approval.

Water stock with an approximate value of R362 171 (carrying value at 30 June 2014: R367 091) was transferred to Newcastle Municipality from UThukela Water (Proprietary) Limited on 01 July 2013. Refer to note 52.

### Inventory pledged as security

No inventory was pledged as security for the current financial period.

### 9. Other financial assets

#### At amortised cost

UThukela Water (Proprietary) Limited	3 003 770	4 883 680
Stand debtors	11 558	1 790 317
	<u>3 015 328</u>	<u>6 673 997</u>

#### Current assets

At amortised cost	<u>3 015 328</u>	<u>6 673 997</u>
-------------------	------------------	------------------

Loan receivable from UThukela Water (Proprietary) Limited is repayable in bi-annual instalments of R691 212 charged at 5% per annum.

### 10. Receivables from exchange transactions

Deposits	1 537 043	509 528
Sundry debtors	9 914 112	3 755 078
Other receivables	12 561 791	21 082 462
Insurance debtors	-	2 545 046
	<u>24 012 946</u>	<u>27 892 114</u>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>11. Receivables from non-exchange transactions</b>		
Fines (Gross balance)	27 820 092	21 352 522
Less: Provision for impairment	(19 239 129)	(14 766 447)
	<u>8 580 963</u>	<u>6 586 075</u>
<b>Reconciliation of fines</b>		
Opening balance	21 352 522	16 263 909
Add: Fines recognised	8 993 975	7 649 620
Less: Fines received	(2 526 405)	(2 561 007)
	<u>27 820 092</u>	<u>21 352 522</u>
<b>Reconciliation of provision for impairment</b>		
Opening balance	14 766 447	11 247 391
Add: Contribution to provision for impairment	4 472 682	3 519 056
	<u>19 239 129</u>	<u>14 766 447</u>
<b>Fine revenue recognised in surplus and deficit comprised of:</b>		
Traffic fine revenue	8 993 975	7 649 620
Other fine revenue	28 509	36 133
	<u>9 022 484</u>	<u>7 685 753</u>
Fine revenue is comprised of revenue from traffic fines and other fines. An impairment tested was conducted which reflected an average collection rate of 30.84% for the preceding 5 years.		
<b>12. VAT receivable</b>		
VAT	<u>34 801 284</u>	<u>68 070 371</u>
<b>Input VAT comprised of the following:</b>		
Input VAT declared through VAT returns	51 315 668	68 070 370
Less: Provision for VAT impairment	(16 514 384)	-
	<u>34 801 284</u>	<u>68 070 370</u>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>13. Consumer debtors</b>		
<b>Gross balances</b>		
Rates	106 157 640	82 275 925
Electricity	66 104 890	59 399 837
Water	232 884 594	164 254 930
Sewerage	142 763 484	104 498 904
Refuse	65 687 073	47 480 970
Other	63 155 453	58 705 792
VAT and sundry services	318 119 093	313 214 620
	<b>994 872 227</b>	<b>829 830 978</b>
<b>Less: Allowance for impairment</b>		
Rates	(47 469 261)	(54 540 764)
Electricity	(15 905 762)	(24 690 164)
Water	(101 051 473)	(76 479 166)
Sewerage	(66 200 957)	(69 272 391)
Refuse	(32 749 471)	(31 475 166)
Other	(35 063 585)	(39 781 375)
VAT and sundry services	(174 249 871)	(207 630 176)
	<b>(472 690 380)</b>	<b>(503 869 202)</b>
<b>Net balance</b>		
Rates	58 688 378	27 735 161
Electricity	50 199 128	34 709 673
Water	131 833 121	87 775 764
Sewerage	76 562 527	35 226 513
Refuse	32 937 602	16 005 804
Other	28 091 867	18 924 417
VAT and sundry services	143 869 222	105 584 444
	<b>522 181 845</b>	<b>325 961 776</b>
<b>Included in above is receivables from exchange transactions</b>		
Electricity	66 104 890	59 399 837
Water	232 884 594	164 254 930
Sewerage	142 763 484	104 498 904
Refuse	65 687 073	47 480 970
Other	63 155 453	58 705 792
VAT and sundry services	318 119 093	313 214 619
	<b>888 714 587</b>	<b>747 555 052</b>
<b>Included in above is receivables from non-exchange transactions</b>		
Rates	106 157 640	82 275 926
<b>Total</b>	<b>994 872 227</b>	<b>829 830 978</b>
<b>Rates</b>		
Current (0 -30 days)	16 019 462	11 190 256
31 - 60 days	3 001 728	2 907 072
61 - 90 days	2 830 507	2 649 434
91 - 120 days	2 748 242	2 351 619
121 - 365 days	2 565 911	2 279 376
> 365 days	78 991 789	60 898 168
	<b>106 157 639</b>	<b>82 275 925</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>13. Consumer debtors (continued)</b>		
<b>Electricity, Water, Sewerage and Refuse</b>		
Current (0 -30 days)	137 734 501	60 380 970
31 - 60 days	13 392 696	10 835 344
61 - 90 days	13 098 134	10 161 520
91 - 120 days	13 250 897	8 673 148
121 - 365 days	12 080 786	8 267 902
> 365 days	317 883 025	277 315 757
	<b>507 440 039</b>	<b>375 634 641</b>
<b>VAT and Sundries</b>		
Current (0 -30 days)	(2 111 681)	46 946 489
31 - 60 days	5 445 670	3 587 610
61 - 90 days	2 069 149	1 646 363
91 - 120 days	2 599 900	1 437 257
121 - 365 days	1 904 432	1 413 586
> 365 days	308 211 624	258 183 314
	<b>318 119 094</b>	<b>313 214 619</b>
<b>Other</b>		
Current (0 -30 days)	(67 778)	6 108 420
31 - 60 days	623 727	5 173 140
61 - 90 days	673 232	5 112 954
91 - 120 days	626 138	4 820 519
121 - 365 days	626 387	4 910 336
> 365 days	60 673 747	32 580 421
	<b>63 155 453</b>	<b>58 705 790</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>13. Consumer debtors (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	42 733 791	27 771 461
31 - 60 days	19 140 476	18 244 092
61 - 90 days	16 420 346	15 731 007
91 - 120 days	16 432 122	15 025 660
121 - 365 days	15 325 641	15 141 990
> 365 days	706 070 736	640 323 734
	<u>816 123 112</u>	<u>732 237 944</u>
Less: Allowance for impairment	(387 761 900)	(437 894 876)
	<u><b>428 361 212</b></u>	<u><b>294 343 068</b></u>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	107 668 687	33 336 950
31 - 60 days	2 596 370	3 651 974
61 - 90 days	1 600 356	3 186 648
91 - 120 days	2 132 892	1 887 979
121 - 365 days	1 275 927	1 381 542
> 365 days	43 902 084	38 751 301
	<u>159 176 316</u>	<u>82 196 394</u>
Less: Allowance for impairment	(75 628 922)	(56 126 926)
	<u><b>83 547 394</b></u>	<u><b>26 069 468</b></u>
<b>National and provincial government</b>		
Current (0 -30 days)	(926 411)	(941 073)
31 - 60 days	729 984	615 896
61 - 90 days	651 921	663 918
91 - 120 days	662 348	382 990
121 - 365 days	577 560	356 381
> 365 days	17 877 395	14 318 527
	<u>19 572 797</u>	<u>15 396 639</u>
Less: Allowance for impairment	(9 299 559)	(9 847 401)
	<u><b>10 273 238</b></u>	<u><b>5 549 238</b></u>
<b>Total</b>		
Current (0 -30 days)	149 476 067	60 167 338
31 - 60 days	22 466 830	22 511 963
61 - 90 days	18 672 623	19 581 573
91 - 120 days	19 227 362	17 296 629
121 - 365 days	17 179 128	16 879 913
> 365 days	767 850 217	693 393 563
	<u>994 872 227</u>	<u>829 830 979</u>
Less: Allowance for impairment	(472 690 380)	(503 869 203)
	<u><b>522 181 847</b></u>	<u><b>325 961 776</b></u>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>13. Consumer debtors (continued)</b>		
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(503 869 203)	(443 707 899)
Contributions to allowance	15 650 474	(279 061 645)
Debt impairment written off against allowance	15 528 349	219 696 262
De-registration of indigent debtors	-	(795 920)
	<b>(472 690 380)</b>	<b>(503 869 202)</b>

### Credit quality of consumer debtors

Consumer debtors comprise a widespread customer base. The Municipality engaged TransUnion to evaluate the credit risk relating to the consumer debtors account balance as at 31 May 2014. Factors used to determine characteristics of collection levels were considered during the risk rating of consumer debtors and evaluation for impairment.

The credit quality of trade receivables that are neither past due nor impaired are considered fair by the municipality taking into account the historical information available. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, management believes no further credit provisions are required in excess of the present allowance for doubtful debts

### Consumer debtors impaired

As at 30 June 2014, consumer debtors of R15 528 349 (2013: R219 696 262) were impaired and provided for.

The amount of the provision was R472 690 380 (2013: R503 869 202).

### 14. Non-current assets held for sale

#### Land

Opening balance	7 632 000	-
Add: Transfers in - Classified as held for sale	3 651 488	7 632 000
Less: Transfers out - Disposals	(2 538 000)	-
	<b>8 745 488</b>	<b>7 632 000</b>

Non-current assets held for sale comprises R2 945 000 and R706 488 which relate to land and moveable assets respectively which have been classified as held for sale in the current year (2013: Land R7 632 000).

### 15. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash and cash equivalents are initially measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents consist of:

Cash on hand	579 682	15 750
Bank balances	109 434 277	5 011 194
Short-term deposits	217 893 244	346 836 585
	<b>327 907 203</b>	<b>351 863 529</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand				2014	2013
<b>15. Cash and cash equivalents (continued)</b>					
The municipality had the following bank accounts					
<b>Account number</b>	<b>Bank statement balances</b>			<b>Cash book balances</b>	
	<b>30 June 2014</b>	<b>30 June 2013</b>	<b>30 June 2012</b>	<b>30 June 2014</b>	<b>30 June 2013</b>
FNB - 53140035974	107 961 682	3 402 192	14 253 838	109 434 277	5 011 194
FNB - 53140063149	1 472 594	1 558 560	4 940 671	-	-
<b>Total</b>	<b>109 434 276</b>	<b>4 960 752</b>	<b>19 194 509</b>	<b>109 434 277</b>	<b>5 011 194</b>
<b>Short-term investments</b>					
Money market accounts				51 363 197	78 100 011
Call accounts				166 530 048	268 736 574
				<b>217 893 245</b>	<b>346 836 585</b>
<b>Money market accounts</b>					
Sanlam - 1246107				51 363 197	49 012 284
FNB - 62132797088				-	29 087 727
				<b>51 363 197</b>	<b>78 100 011</b>
<b>Call accounts</b>					
FNB - 62104301388				1 493 343	1 485 054
FNB - 62351037695				-	5 000 000
FNB - 62336749497				5 610 568	5 380 074
FNB - 71351217206				-	51 800 000
Nedbank - 7648555441/044				-	47 900 000
Nedbank - 7648555441/10				245 510	234 586
Nedbank - 7648555441/01				4 601 402	4 396 661
Nedbank - 7648555441/013				196 289	187 555
ABSA - 9288456248				5 004 788	-
ABSA - 9112678241				4 369 252	4 193 857
ABSA - 2072185521				-	51 100 000
ABSA - 9293256166				51 100 000	-
ABSA - 9123294032				168 215	161 479
Standard Bank - 68450354/011				-	5 000 000
Standard Bank - 68450354/015				8 475 159	8 086 231
Standard Bank - 68450354/016				27 297 577	26 044 880
Standard Bank - 68450354/001				4 313 993	4 116 023
Standard Bank - 68450354/030				2 500 000	2 500 000
Standard Bank - 68450354/034				48 800 000	-
Standard Bank - 68450354/009				2 273 026	2 273 026
Standard Bank - 68450354/008				80 926	77 248
Standard Bank - 428801730/002				-	48 800 000
				<b>166 530 048</b>	<b>268 736 674</b>
<b>Interest income</b>					
Interest on primary bank account				3 357 513	3 327 361
Interest on investment accounts				13 823 408	19 169 050
				<b>17 180 921</b>	<b>22 496 411</b>
<b>16. Other financial liabilities</b>					
<b>At amortised cost</b>					
DBSA loans				241 982 869	70 860 595

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>16. Other financial liabilities (continued)</b>		
The municipality has twenty (20) loans from Development Bank of Southern Africa (DBSA) to fund infrastructure assets. Each loan has a fixed interest rate however, all loans have different interest rates. Interest rates are between 5% and 12% per annum, payable quarterly.		
Long term loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.		
<b>Non-current liabilities</b>		
At amortised cost	221 003 266	62 868 405
<b>Current liabilities</b>		
At amortised cost	20 979 603	7 992 190
Financial liabilities (3 loans) with an amortised cost of R16 138 617 on 01 July 2013 were assumed by Newcastle Municipality from UThukela Water (Proprietary) Limited. Financial liabilities are repayable every quarter and interest rates range from 5% to 10.46% per annum. Refer note 52.		
<b>17. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	509 592	203 064
- in second to fifth year inclusive	231 853	6 768
	741 445	209 832
less: future finance charges	(205 112)	(11 831)
<b>Present value of minimum lease payments</b>	<b>536 333</b>	<b>198 001</b>
<b>Present value of minimum lease payments due</b>		
- within one year	355 413	203 064
- in second to fifth year inclusive	180 920	6 768
	<b>536 333</b>	<b>209 832</b>
Non-current liabilities	231 853	6 470
Current liabilities	509 592	191 531
	<b>741 445</b>	<b>198 001</b>

The average lease term is 24 months and the effective borrowing rate is 26% (2013:11%). Interest rates are fixed at the contract date. No arrangements have been entered into for contingent rental.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>18. Payables from exchange transactions</b>		
Trade payables	149 536 843	86 812 466
Retentions	30 425 211	25 833 549
Output VAT on levies	74 380 862	57 008 031
Stale cheques written back	277 167	75 946
Operating lease accrual - straight-lining of operating leases	247 442	124 047
Leave pay provision	33 063 936	25 750 657
Bonus provision	7 789 124	-
Other payables	12 006 626	5 727 848
	<b>307 727 211</b>	<b>201 332 544</b>

The fair value of trade and other payables approximates their carrying amounts.

Trade and other payables are non-interest-bearing and are normally settled on 30 day terms, except retentions that could be settled after 12 months.

Payments received in advance are non-interest bearing and normally settled on 30 day terms. Management policies are in place to ensure that all payables are paid within a reasonable timeframe - 30 days

### 19. Consumer deposits

Electricity	9 524 161	10 827 937
Refuse	452 240	(890 637)
Housing rental	51 142	37 403
	<b>10 027 543</b>	<b>9 974 703</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>20. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
Municipal Infrastructure Grant	-	3 248 608
Osizweni Arts Centre	36 920	36 920
Corridor Development	135 245	135 244
Disaster Management	-	1 500 000
Municipal Water Infrastructure Grant	1 921 276	-
Provincialisation - Libraries	3 107 111	-
Carnegie Art Gallery	284 000	-
Fort Amiel museum	284 000	-
Municipal Systems Improvement Grant	1 840 217	2 229 629
Financial Management Grant	-	1 181 255
Grant Skills Development	98 991	249 209
Capacity Building - Housing	6 454 849	4 823 200
Environmental Management Framework	572 310	953 500
Neighbourhood Development Partnership	-	16 104 934
Electrification Grant	-	10 043 459
Expanded Public Works Programme	-	26 465
Water Services Operating & Masification Subsidies	3 392 557	13 450 945
KwaMathukuza Housing Projects	14 065 853	14 065 853
JBC Housing Project	3 000 000	4 500 000
Newcastle Airport	143 775	-
Cleanest Town	823 975	423 975
Newcastle Library Internet Project	7 535	30 209
Construct/Upgrade Sport & Recreation	993 603	584 729
Municipal Infrastructure Grant - Project Management Unit Allocation	252 435	4 267 652
Madadeni Library Internet Project	143 548	124 878
Madadeni/Osizweni upgrading of houses	2 080 113	2 080 113
Osizweni library internet project	75 432	101 345
Repair construction storm damage HS	1 218 040	1 218 040
LED Projects - Lancets	1 500 000	-
WC/WDM	21 119	21 119
Osizweni F phase 1 sewer	72 485	72 485
Drought Relief Fund	23 055	23 055
Viljoen Park Updrade	2 400 000	2 400 000
Other unspent conditional grants	-	21 067 779
	<b>44 948 444</b>	<b>104 964 600</b>

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; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013				
<b>21. Defined benefit plan obligations</b>						
<b>Reconciliation of defined benefit plan obligations - 2014</b>						
	<b>Opening Balance</b>	<b>Current service costs</b>	<b>Contributions paid</b>	<b>Actuarial loss/(gain)</b>	<b>Interest costs</b>	<b>Total</b>
Employee benefits	110 375 909	6 602 228	(3 437 863)	(23 189 640)	7 877 631	98 228 265
<b>Reconciliation of defined benefit plan obligations - 2013</b>						
	<b>Opening Balance</b>	<b>Current service costs</b>	<b>Contributions paid</b>	<b>Actuarial loss/(gain)</b>	<b>Interest costs</b>	<b>Total</b>
Employee benefits	81 408 879	4 785 416	(3 586 743)	20 964 933	6 803 424	110 375 909
Non-current liabilities					93 802 319	106 938 046
Current liabilities					4 425 946	3 437 863
					<b>98 228 265</b>	<b>110 375 909</b>
<b>Health care benefits</b>						
Balance at the beginning of the year					96 855 287	67 383 722
Current service cost					5 306 118	3 029 627
Contributions paid					(2 205 782)	(2 089 992)
Actuarial (gain)/loss					(23 940 072)	22 761 401
Interest					6 942 049	5 770 529
					<b>82 957 600</b>	<b>96 855 287</b>
<b>Net expenses recognised in Statement of Financial Performance</b>						
Current service cost					5 306 118	3 029 627
Benefits paid					(2 205 782)	(2 089 992)
Actuarial (gain)/loss					(23 940 072)	22 761 401
Interest					6 942 049	5 770 529
					<b>(13 897 687)</b>	<b>29 471 565</b>
<b>Long service bonus awards</b>						
Balance at the beginning of the year					13 520 622	14 025 157
Current service cost					1 296 110	1 755 789
Benefits paid					(1 232 081)	(1 496 751)
Actuarial loss/(gain)					750 432	(1 796 468)
Interest					935 582	1 032 895
					<b>15 270 665</b>	<b>13 520 622</b>
<b>Net expenses recognised in Statement of Financial Performance</b>						
Current service cost					1 296 110	1 755 789
Benefits paid					(1 232 081)	(1 496 751)
Actuarial loss/(gain)					750 432	(1 796 468)
Interest					935 582	1 032 895
					<b>1 750 043</b>	<b>(504 535)</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand 2014 2013

### 21. Defined benefit plan obligations (continued)

#### Assumptions

##### Health Care Benefits

The municipality provides certain post retirement medical benefits by funding the medical aid contribution of certain retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current condition service), on retirement, is entitled to remain a continued member of such a medical aid fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The most recent actuarial valuations the present value of unfunded defined obligation was carried out as at 30 June 2014 by ARCH Actuarial Consulting, a member of Actuarial Society of South Africa. The present value of the defined obligation, and related current service cost and past service cost were measured using the projected unit credit method. No other post retirement medical benefits are provided by the municipality.

##### Key financial assumptions used

Discount rate	9.03%
Health care cost inflation rate	8.20%
Net effective discount rate	0.77%

<b>Unfunded Accrued Liability</b>	R82 957 600	R96 855 287
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##### Current-service and Interest Costs

Year ending 30 June 2014 (current period)	R5 306 118
Interest Cost	R6 942 049

Actuarial (Gain)/Loss Recognised in Surplus/Deficit	R23 940 072
-----------------------------------------------------	-------------

##### Long Service Bonus Awards

The long service bonus award is a function of accumulated leave days that is convertible into cash in the year the employee attains the service eligible for an award at a rate of 1/250 of annual salary per day.

##### Key financial assumptions used

Discount rate	7.98%	7.25%
General Salary Inflation (long-term)	7.13%	7.15%
Net effective discount rate	0.79%	0.09%

The salaries used in the valuation include an assumed increase on 1 July 2014 of 6.79% as per the SALGBC Circular No.: 3/2014. The next salary increase was assumed to take place on 1 July 2015.

##### Key Demographic Assumptions

Average retirement age	63
Mortality during employment	SA 85-90

Withdrawal from service (sample annual rates)	Age	Rate - Female	Rate - Male
	20	24%	16%
	30	15%	10%
	40	6%	6%
	50	2%	2%
	55	0%	0%

##### Unfunded Accrued Liability

Total value of liabilities	R15 270 665	R13 520 622
Value of assets	0	0
Unfunded Accrued Liability	R15 270 665	R13 520 622

##### Current-service and Interest Costs

Current-service Cost	R1 296 110
Interest Cost	R 935 582

##### Comparison of vital statistics

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>21. Defined benefit plan obligations (continued)</b>		
Number of eligible employees	1274	1054
Average annual salary	R139 648	R119 279
Salary-weighted average age	42.9	42.9
Salary-weighted average past service	11.1	11.2
<b>22. Provision for landfill rehabilitation costs</b>		
Provision for landfill rehabilitation costs	<u>25 860 274</u>	<u>22 923 190</u>
<p>The provision for rehabilitation costs is raised for the rehabilitation of the refuse disposal site to its original state once the landfill has reached the end of its useful life. The provision for rehabilitation costs is calculated as the present value of the future value of the future obligation, discounted at 6%, over a period of 3 years (being the remaining useful life of the landfill). The discounting rate used to discount the future value of the value of the provision is the return on long-term Treasury Bonds and further adjusted for municipal specific risks.</p> <p>During the current year, the future value of the provision for rehabilitation of the landfill was re-estimated at R30 800 000 (2013: R28 939 999) by Jeffares &amp; Green.</p> <p>The effect of discounting of the future value of the provision for rehabilitation of the landfill over the remaining useful life is estimated at R4 939 726.</p>		
<b>The movement in the non-current provision is reconciled as follows:</b>		
Balance at the beginning of the year	22 923 190	22 494 322
Increase in provision	1 473 295	-
Finance charges recognised	1 463 789	428 868
	<u>25 860 274</u>	<u>22 923 190</u>
<b>23. Revenue</b>		
Service charges	798 616 634	731 455 268
Rental of facilities and equipment	4 639 974	3 677 190
Other income	3 838 031	1 848 237
Sundry sales	647 921	633 283
Fee income	3 516 359	4 844 071
Interest received	25 518 310	94 392 883
Property rates	175 478 677	156 249 490
Government grants & subsidies	434 932 499	387 955 623
Fines	9 022 484	7 685 753
	<u>1 456 210 889</u>	<u>1 388 741 798</u>
<b>The amount included in total revenue reflected above arising from exchange of goods and services is comprised of::</b>		
Service charges	798 616 634	731 455 268
Rental of facilities and equipment	4 639 974	3 677 190
Other income	3 838 031	1 848 237
Sundry sales	647 921	633 283
Fee income	3 516 359	4 844 071
Interest received - investment	25 518 310	94 392 883
	<u>836 777 229</u>	<u>836 850 932</u>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>23. Revenue (continued)</b>		
<b>The amount included in total revenue reflected above arising from non-exchange transactions is comprised of:</b>		
Property rates	175 478 677	156 249 490
Government grants & subsidies	434 932 499	387 955 623
Fines	9 022 484	7 685 753
	<b>619 433 660</b>	<b>551 890 866</b>
<b>24. Service charges</b>		
Service connections	5 317 399	3 191 372
Sale of electricity	497 826 567	450 321 160
Sale of water	143 077 136	135 209 094
Sewerage and sanitation charges	83 524 763	78 663 745
Refuse removal	68 870 769	64 069 897
	<b>798 616 634</b>	<b>731 455 268</b>
<b>25. Property rates</b>		
<b>Rates received</b>		
Property rates	175 478 677	156 249 490
<b>Valuations</b>		
Residential	9 627 634 780	9 580 425 780
Commercial	3 702 862 600	3 296 115 600
State	92 106 501	92 053 500
Vacant	285 095 100	305 873 100
Specialised non-market	1 054 734 000	1 022 300 000
Agriculture	702 104 000	702 104 000
Communal land	85 345 000	85 025 000
	<b>15 549 881 981</b>	<b>15 083 896 980</b>

Valuations on land and buildings are performed every four years. The last valuation came into effect on 01 July 2009. Interim valuations are processed on a quarterly basis to take into account changes in individual property values due to alterations and subdivisions.

The latest valuation performed on land and buildings in the municipal area will be effective on 01 July 2014.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>26. Government grants and subsidies</b>		
Equitable share	276 638 000	270 475 000
Newcastle library internet project	142 673	88 333
Finance management grant	2 028 255	1 021 987
Skills development grant	709 819	1 316 668
Expanded Public Works programme incentive	1 336 465	4 822 631
Neighbourhood development partnership	5 784 934	5 220 858
Electrification grant	15 043 459	4 266 690
JBC housing project	1 500 000	-
Water services operating & masification subsidies	17 073 793	6 712 085
Municipal infrastructure grant	101 050 608	86 789 392
Municipal systems improvement grant	1 279 412	-
Repair construction storm damage HS	-	3 836 829
Environmental management framework	381 190	-
MIG PMU Allocation	4 015 217	-
Construct/Upgrade sport/Recreation	116 126	116 281
Madadeni library internet project	101 329	-
Municipal Water Infrastructure Grant	3 564 723	-
Osizweni library internet project	145 913	104 133
Provincialisation- All Libraries	1 608 888	2 246 000
Capacity building Housing	1 055 471	-
Other Government Grants and Subsidies	1 356 224	938 736
	<b>434 932 499</b>	<b>387 955 623</b>
<b>Equitable Share</b>		
<b>Reconciliation of Equitable share</b>		
Equitable share actually receipted	248 414 000	270 475 000
Funds surrendered to National Revenue Fund	28 224 000	-
	<b>276 638 000</b>	<b>270 475 000</b>
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
<b>Municipal Infrastructure Grant</b>		
Balance unspent at beginning of year	3 248 608	-
Current-year receipts	97 802 000	90 038 000
Conditions met - transferred to revenue	(101 050 608)	(86 789 392)
	<b>-</b>	<b>3 248 608</b>
<b>Municipal Systems Improvement Grant</b>		
Balance unspent at beginning of year	2 229 629	1 429 629
Current-year receipts	890 000	800 000
Conditions met - transferred to revenue	(1 279 412)	-
Funds surrendered to National Revenue Fund	(1 429 629)	-
	<b>410 588</b>	<b>2 229 629</b>
Conditions still to be met - remain liabilities (see note 20).		
<b>Financial Management Grant</b>		
Balance unspent at beginning of year	1 181 255	703 242
Current-year receipts	1 550 000	1 500 000

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>26. Government grants and subsidies (continued)</b>		
Conditions met - transferred to revenue	(2 028 255)	(1 021 987)
Funds surrendered to National Revenue Fund	(703 000)	-
	<u>-</u>	<u>1 181 255</u>
Conditions still to be met - remain liabilities (see note 20).		
<b>Skills Development Grant</b>		
Balance unspent at beginning of year	249 209	-
Current-year receipts	559 601	1 565 877
Conditions met - transferred to revenue	(709 819)	(1 316 668)
	<u>98 991</u>	<u>249 209</u>
Conditions still to be met - remain liabilities (see note 20).		
<b>Expanded Works Programme Incentive</b>		
Balance unspent at beginning of year	26 465	2 974 096
Current-year receipts	1 310 000	1 875 000
Conditions met - transferred to revenue	(1 336 465)	(4 822 631)
	<u>-</u>	<u>26 465</u>
Conditions still to be met - remain liabilities (see note 20).		
<b>Environmental Management Framework</b>		
Balance unspent at beginning of year	953 500	1 353 500
Conditions met - transferred to revenue	(381 190)	-
Correction of cleanest town grant misallocated	-	(400 000)
	<u>572 310</u>	<u>953 500</u>
Conditions still to be met - remain liabilities (see note 20).		
<b>Neighbourhood Development Partnership</b>		
Balance unspent at beginning of year	16 104 934	12 325 792
Current-year receipts	10 000 000	9 000 000
Conditions met - transferred to revenue	(5 784 934)	(5 220 858)
Funds surrendered to National Revenue Fund	(20 320 000)	-
	<u>-</u>	<u>16 104 934</u>
Conditions still to be met - remain liabilities (see note 20).		
<b>Electrification Grant</b>		
Balance unspent at beginning of year	10 043 459	4 310 149
Current-year receipts	5 000 000	10 000 000
Conditions met - transferred to revenue	(15 043 459)	(4 266 690)
	<u>-</u>	<u>10 043 459</u>
Conditions still to be met - remain liabilities (see note 20).		
<b>Water Services Operating &amp; Masification Subsidies</b>		
Balance unspent at beginning of year	13 450 945	7 032 652
Current-year receipts	14 216 405	13 130 378
Conditions met - transferred to revenue	(17 073 793)	(6 712 085)

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>26. Government grants and subsidies (continued)</b>		
Funds surrendered to National Revenue Fund	(7 201 000)	-
	<b>3 392 557</b>	<b>13 450 945</b>
Conditions still to be met - remain liabilities (see note 20).		
<b>KwaMatukuza Housing Project</b>		
Balance unspent at beginning of year	14 065 853	13 555 015
Current-year receipts	-	510 838
	<b>14 065 853</b>	<b>14 065 853</b>
Conditions still to be met - remain liabilities (see note 20).		
<b>Newcastle Library internet project</b>		
Balance unspent at beginning of year	30 208	118 541
Current-year receipts	120 000	-
Conditions met - transferred to revenue	(142 673)	(88 333)
	<b>7 535</b>	<b>30 208</b>
Conditions still to be met - remain liabilities (see note 20).		
<b>JBC Housing Project</b>		
Balance unspent at beginning of year	4 500 000	4 500 000
Conditions met - transferred to revenue	(1 500 000)	-
	<b>3 000 000</b>	<b>4 500 000</b>
Conditions still to be met - remain liabilities (see note 20).		
<b>Repair Construction Storm damage HS</b>		
Balance unspent at beginning of year	1 218 040	-
Current-year receipts	-	5 054 869
Conditions met - transferred to revenue	-	(3 836 829)
	<b>1 218 040</b>	<b>1 218 040</b>
Conditions still to be met - remain liabilities (see note 20).		
<b>MIG PMU Allocation</b>		
Balance unspent at beginning of year	4 267 653	4 267 653
Conditions met - transferred to revenue	(4 015 217)	-
	<b>252 436</b>	<b>4 267 653</b>
Conditions still to be met - remain liabilities (see note 20).		
<b>Construct/Upgrade sport/Recreation</b>		
Balance unspent at beginning of year	584 729	176 010
Current-year receipts	525 000	525 000
Conditions met - transferred to revenue	(116 126)	(116 281)
	<b>993 603</b>	<b>584 729</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>26. Government grants and subsidies (continued)</b>		
Conditions still to be met - remain liabilities (see note 20).		
<b>Madadeni library internet project</b>		
Balance unspent at beginning of year	124 878	124 878
Current-year receipts	120 000	-
Conditions met - transferred to revenue	(101 329)	-
	<u>143 549</u>	<u>124 878</u>
Conditions still to be met - remain liabilities (see note 20).		
<b>Municipal Water Infrastructure Grant</b>		
Current-year receipts	5 486 000	-
Conditions met - transferred to revenue	(3 564 723)	-
	<u>1 921 277</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 20).		
<b>Osizweni Library internet project</b>		
Balance unspent at beginning of year	101 345	99 678
Current-year receipts	120 000	105 800
Conditions met - transferred to revenue	(145 913)	(104 133)
	<u>75 432</u>	<u>101 345</u>
Conditions still to be met - remain liabilities (see note 20).		
<b>Provincialisation- All Libraries</b>		
Current-year receipts	4 716 000	2 246 000
Conditions met - transferred to revenue	(1 608 888)	(2 246 000)
	<u>3 107 112</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 20).		
<b>Capacity Building housing</b>		
Balance unspent at beginning of year	4 823 000	-
Current-year receipts	2 847 138	4 823 000
Conditions met - transferred to revenue	(1 055 471)	-
Reversal of capitalised interest reversed	(160 018)	-
	<u>6 454 649</u>	<u>4 823 000</u>
Conditions still to be met - remain liabilities (see note 20).		
<b>Osizweni arts centre</b>		
Balance unspent at beginning of year	36 920	110 900
Conditions met - transferred to revenue	-	(73 980)
	<u>36 920</u>	<u>36 920</u>
Conditions still to be met - remain liabilities (see note 20).		

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>26. Government grants and subsidies (continued)</b>		
<b>Corridor development</b>		
Balance unspent at beginning of year	135 245	1 000 000
Conditions met - transferred to revenue	-	(864 755)
	<u>135 245</u>	<u>135 245</u>
Conditions still to be met - remain liabilities (see note 20).		
<b>27. Employee related costs</b>		
Basic	201 823 665	144 110 437
Bonus	7 113 340	-
Medical aid - company contributions	13 044 522	12 522 206
UIF	1 966 091	1 504 564
WCA	2 786 520	-
SDL	26 053	-
Leave bonus paid	14 057 603	11 137 116
Defined contribution plans	34 331 072	28 558 924
Travel, motor car, accommodation, subsistence and other allowances	2 340 758	1 368 255
Overtime payments	35 586 330	23 042 300
Long-service awards	101 872	446 019
Transport allowance	16 765 340	17 221 834
Housing benefits and allowances	7 904 127	7 101 121
Group insurance	4 784 862	3 374 908
Bargaining council	1 202	-
Night work allowance	870 606	639 137
Leave pay provision	9 984 565	3 058 314
	<u>353 488 528</u>	<u>254 085 135</u>
<b>Remuneration of the Municipal Manager</b>		
Annual Remuneration	1 102 465	1 134 528
Car Allowance	230 774	216 000
Contributions to UIF, Medical and Pension Funds	46 930	46 108
Annual Bonus	90 814	85 000
Subsistence and Travelling	38 186	52 314
Leave Paid	99 818	-
	<u>1 608 987</u>	<u>1 533 950</u>

Performance bonus amounting to R152 755 which relates to the 2012 financial year which was approved.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>27. Employee related costs (continued)</b>		
<b>Remuneration of the Chief Finance Officer</b>		
Annual Remuneration	371 737	627 387
Car Allowance	99 361	186 000
Contributions to UIF, Medical and Pension Funds	22 785	123 439
Annual Bonus	-	50 625
Subsistence and Travelling	19 693	29 484
Leave Paid	-	43 357
	<u>513 576</u>	<u>1 060 292</u>

The Chief Financial Officer's contract of employment had come to an end effectively 31 December 2013.

The Chief Financial Officer was entitled to a bonus amounting to R63 584 which was approved.

An Acting Chief Financial Officer was appointed on 06 January 2014. Costs incurred relating to the acting appointment have been included in consultant fees.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>27. Employee related costs (continued)</b>		
<b>Remuneration of Executive Directors</b>		
Annual Remuneration	5 993 736	4 396 277
Travel, motor car, accommodation, subsistence and other allowances	1 337 264	1 289 832
Performance Bonuses	251 249	145 733
Contributions to UIF, Medical and Pension Funds	553 638	545 459
Leave Paid	68 259	-
	<b>8 204 146</b>	<b>6 377 301</b>
<b>Remuneration of Individual Executive Directors</b>		
<b>Legal Services Director</b>		
Annual Remuneration	824 450	755 000
Travel, motor car, accommodation, subsistence and other allowances	153 567	145 721
Leave Paid	38 581	-
Contributions to UIF, Medical and Pension Fund	121 088	125 384
	<b>1 137 686</b>	<b>1 026 105</b>
Performance bonus amounting to R72 667 which relates to the 2012 financial year was approved.		
<b>Internal Audit</b>		
Annual Remuneration	587 514	629 904
Travel, motor car, accommodation, subsistence and other allowances	16 000	-
Performance and other bonuses	-	202 122
Contributions to UIF, Medical and Pension Fund	66 981	7 778
	<b>670 495</b>	<b>839 804</b>
The Chief Audit Executive was appointed on 01 November 2013. The Manager: Internal Audit had acted as the Head of the Internal Audit up until 31 October 2013.		
<b>Technical Services Director</b>		
Annual Remuneration	696 921	568 317
Travel, motor car, accommodation, subsistence and other allowances	242 698	283 340
Performance and other bonuses	49 307	46 150
Contribution to UIF, Medical and Pension Funds	82 722	105 853
	<b>1 071 648</b>	<b>1 003 660</b>
Performance bonus amounting to R81 750 which relates to the 2012 financial year was approved.		
<b>Chief of Operations</b>		
Annual Remuneration	825 872	776 193
Travel, motor car, accommodation, subsistence and other allowances	191 973	-
Performance and other bonuses	-	181 360
Leave Paid	29 678	43 358
Contribution to UIF, Medical and Pension Funds	43 680	-
	<b>1 091 203</b>	<b>1 000 911</b>
Performance bonus amounting to R65 344 which relates to the 2012 financial year was approved.		
<b>Community Services</b>		
Annual Remuneration	799 299	750 312

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>27. Employee related costs (continued)</b>		
Travel, motor car, accommodation, subsistence and other allowances	232 111	61 667
Performance and other bonuses	66 330	190 622
Contribution to UIF, Medical and Pension Fund	35 687	27 082
	<b>1 133 427</b>	<b>1 029 683</b>
<b>Corporate Services</b>		
Annual Remuneration	778 804	704 030
Travel, motor car, accommodation, subsistence and other allowances	238 423	37 917
Performance and other bonuses	135 613	266 667
Contribution to UIF, Medical and Pension Fund	142 672	223 083
	<b>1 295 512</b>	<b>1 231 697</b>
Performance bonus amounting to R45 417 which relates to the 2012 financial year was approved.		
<b>Electricity Services</b>		
Annual Remuneration	569 766	-
Travel, motor car, accommodation, subsistence and other allowances	166 046	-
Contribution to UIF, Medical and Pension Fund	8 416	-
	<b>744 228</b>	<b>-</b>
The Strategic Executive Director: Electricity Services was appointed on 01 October 2013.		
<b>Development and Planning Services</b>		
Annual Remuneration	911 109	212 520
Travel, motor car, accommodation, subsistence and other allowances	96 446	20 000
Contribution to UIF, Medical and Pension Fund	52 392	12 921
	<b>1 059 947</b>	<b>245 441</b>
<b>Mayor</b>		
Annual Remuneration	478 051	461 435
Travel Allowance	175 950	167 572
Cellphone Allowance	20 868	19 872
Contributions Medical and Pension Funds	32 850	23 918
Housing Allowance	24 000	24 000
Reimbursement	48 495	29 923
	<b>780 214</b>	<b>726 720</b>
<b>Deputy Mayor</b>		
Annual Remuneration	327 604	313 819
Travel Allowance	140 760	134 057
Cellphone Allowance	20 868	19 872
Contributions Medical and Pension Funds	75 910	68 152
Housing Allowance	24 000	24 000
Reimbursement	58 255	57 011
	<b>647 397</b>	<b>616 911</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>27. Employee related costs (continued)</b>		
<b>Speaker</b>		
Annual Remuneration	346 330	328 845
Travel Allowance	140 760	134 057
Cellphone Allowances	20 868	19 872
Contributions Medical and Pension Funds	57 213	53 094
Housing Allowance	24 000	24 000
Reimbursement	79 201	55 969
	<u>668 372</u>	<u>615 837</u>
<b>28. Remuneration of councillors</b>		
Mayor	478 051	461 435
Deputy Mayor	327 604	313 819
Mayoral Committee Members	2 543 673	2 563 270
Speaker	346 330	328 845
Councillors	14 495 141	13 557 372
	<u>18 190 799</u>	<u>17 224 741</u>
<b>In-kind benefits</b>		
The Executive Mayor, Deputy Executive Mayor and Speaker are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
The Mayor and the Deputy Mayor each have the use of separate Council owned vehicles for official duties.		
The Mayor has two full-time bodyguards and a driver. The Deputy Mayor and speaker have two full-time bodyguards.		
The Municipal Manager has two full-time bodyguards at the cost of the Council.		
<b>29. Depreciation and amortisation</b>		
Property, plant and equipment	<u>252 321 047</u>	<u>260 083 473</u>
<b>30. Finance costs</b>		
Non-current borrowings	9 852 972	6 843 975
Provisions and current borrowings	1 472 436	111 883
Other interest paid	-	455 962
	<u>11 325 408</u>	<u>7 411 820</u>
<b>31. Debt impairment</b>		
Debt impairment	(15 650 474)	279 061 645
Contributions to debt impairment provision	4 472 681	3 519 056
	<u>(11 177 793)</u>	<u>282 580 701</u>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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<b>32. Bulk purchases</b>		
Electricity	382 802 503	383 643 252
Water	52 805 805	53 632 958
	<b>435 608 308</b>	<b>437 276 210</b>
<b>33. Contracted services</b>		
Security services	13 499 847	8 569 840
Consultants fees	35 149 098	17 521 248
	<b>48 648 945</b>	<b>26 091 088</b>
<b>34. General expenses</b>		
Advertising	1 767 321	1 790 751
Assessment rates & municipal charges	11 951 657	5 339 865
Auditors remuneration	3 246 736	4 158 944
Bank charges	2 759 096	2 345 769
Commission paid	43 149	33 745
Consulting and professional fees	1 330 651	1 372 186
Entertainment	381 469	648 354
Fines and penalties	-	932 863
Insurance	5 636 776	3 914 633
Community development and training	5 176 604	6 038 919
IT expenses	25 346	30 835
Lease rentals on operating lease	19 925 055	12 380 480
Horticulture	29 250	61 172
Magazines, books and periodicals	258 745	296 671
Motor vehicle expenses	9 726 101	7 859 144
Packaging	8 952 092	14 929 557
Pest control	3 589 349	3 523 045
Fuel and oil	886 070	315 295
Postage and courier	2 352 446	2 130 114
Printing and stationery	2 913 339	2 685 919
Promotions	2 072 079	1 263 245
Protective clothing	2 750 447	2 610 631
Royalties and license fees	-	11 536
Compensation fund	-	4 559 068
Subscriptions and membership fees	3 174 865	2 428 105
Telephone and fax	8 272 417	5 588 900
Training	2 754 404	1 671 310
Tools	220 363	136 646
Other expenses	39 576 838	26 809 436
Administration expenses	34 641 566	29 029 495
Contribution to post retirement benefits	14 479 859	8 002 097
Material	2 141 968	1 699 967
Signage	309 468	403 835
Special programmes	3 429 368	2 790 252
Community VIP sanitation	10 782 539	-
Chemicals	194 536	245 475
Provision for unrecoverable Input VAT	16 514 385	-
Provision for inventory impairment	145 564	-
Loss due theft	12 213	2 862 675
Agency fees	819 262	2 400 000
	<b>223 243 393</b>	<b>163 300 934</b>

# Newcastle Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>35. Investment revenue</b>		
Bank	17 180 921	22 496 412
Arrear consumer accounts	7 621 372	71 806 355
Other Interest	716 017	90 116
	<u>25 518 310</u>	<u>94 392 883</u>
<b>36. Fair value adjustment to investment property</b>		
Investment property	<u>102 474 407</u>	<u>-</u>
<p>The municipality's carrying values of investment property in the investment property register was tested against values of municipal properties included in the municipality's latest General Valuation Roll determined by a professional appraiser, e-Valuations.</p>		
<b>37. Auditors' remuneration</b>		
Fees	<u>3 246 736</u>	<u>4 158 944</u>
<b>38. Operating lease</b>		
<b>Operating lease - Lease expenses (as Lessee)</b>		
Due within one year	5 833 744	2 828 800
Due in second to fifth year inclusive	2 631 079	2 922 648
	<u>8 464 823</u>	<u>5 751 448</u>
<p>Operating lease payments comprise lease rentals payable by the municipality for the office property and equipment. Leases are negotiated for 3 years for the rental of office equipment and photocopiers with no contingent rentals payable. Lease rentals for office property escalates at average 8.5% whilst rentals on office equipment does not escalate on an annual basis. Lease rentals for office property have been straight-lined.</p>		
<b>39. Rental of facilities and equipment</b>		
<b>Premises</b>		
Municipal housing	2 366 382	1 661 887
Venue hire	519 684	458 260
Other	1 753 908	1 557 043
	<u>4 639 974</u>	<u>3 677 190</u>

# Newcastle Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>40. Cash generated from operations</b>		
Surplus (deficit)	61 079 817	(427 210 289)
<b>Adjustments for:</b>		
Depreciation and amortisation	252 321 047	260 083 473
Impairment of investment	97 644 480	179 294 688
Surplus on distribution of non-cash assets to owners	12 604 396	(3 834 162)
Fair value adjustments	(102 474 407)	-
Impairment deficit	11 519 053	33 038 271
Debt impairment	(11 177 793)	282 580 701
Reversal of impairment	(1 049 525)	-
<b>Changes in working capital:</b>		
Inventories	(5 531 185)	188 329
Receivables from exchange transactions	3 879 168	20 943 315
Consumer debtors	(165 041 247)	12 773 557
Other receivables from non-exchange transactions	(3 989 776)	(13 172 150)
Other financial assets	3 658 669	1 627 457
Payables from exchange transactions	106 394 667	37 222 628
VAT	16 754 702	(65 749 910)
Unspent conditional grants and receipts	(60 016 156)	26 252 971
Consumer deposits	52 840	16 672
	<b>216 628 750</b>	<b>344 055 551</b>
<b>41. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Infrastructure assets	135 912 421	69 099 736
• Community assets	192 895 237	135 182
• Land and buildings	112 132 340	922 357
• Other assets	23 678 546	9 877 905
	<b>464 618 544</b>	<b>80 035 180</b>
<b>Not yet contracted for and authorised by accounting officer</b>		
• Infrastructure assets	1 564 317	84 632 592
• Community assets	1 100 000	500 000
• Other assets	3 497 200	16 698 096
	<b>6 161 517</b>	<b>101 830 688</b>
<b>Operating leases - as lessee (expense)</b>		
<b>Minimum lease payments due</b>		
- within one year	6 778 335	3 216 378
- in second to fifth year inclusive	3 127 118	3 481 687
	<b>9 905 453</b>	<b>6 698 065</b>

Operating lease payments comprise lease rentals payable by the municipality for the office property and equipment. Leases are negotiated for 3 years for the rental of office equipment and photocopiers with no contingent rentals payable. Lease rentals for office property escalates at average 8.5% whilst rentals on office equipment does not escalate on an annual basis. Lease rentals for office property have been straight-lined.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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### 42. Contingencies

Plaintiff: SJ Zulu – Application and Action in the High Court

There is litigation process against the municipality relating to a dispute with Mr SJ Zulu, who is seeking damages of R20 million. The outcome of this matter is pending High Court action.

Plaintiff: BTE Construction CC

BTE Construction CC issued summons against the municipality relating to a dispute for breach of contract. Should BTE Construction CC be successful the municipality will be liable for damages claimed and legal costs amounting to R19 000.

Plaintiff: Francois Stevens

There is litigation process against the municipality relating to a dispute with Mr Francois Stevens, who is seeking damages of R55 000 relating to services rendered to the municipality. The outcome of this matter is currently before the Court and should the Mr Stevens succeed, the municipality will be liable for the damages claimed and legal costs.

Plaintiff: Evnic Data CC

There is litigation process against the municipality relating to a dispute with Evnic Data CC, who is seeking damages of R23 million. In this matter Evnic Data CC is suing the municipality for loss of profit. According to Evnic Data CC, it alleges the irregular awarding of a municipal tender to another bidder by municipal officials. Evnic Data CC avers that, had the bid been fairly evaluated and awarded, Evnic Data CC would have been awarded the tender. Should Evnic Data CC be successful the municipality will be liable for the damages claimed as well as legal costs.

Plaintiff: Rusha Peterson

There is litigation process against the municipality relating to a dispute with Rusha Peterson, who is seeking damages against the municipality amounting to R400 000. In this matter Rusha Peterson alleges that the municipality left storm water drainage pipes in a place that was accessible by public which resulted in the injury of her child. She then avers that the municipality was negligent in this regard. Municipality is being sued for damages as well as for legal costs.

Plaintiff: Singatha Africa Joint Venture

There is litigation process against the municipality relating to a dispute with Singatha Africa Joint Venture, who is seeking damages of R1 518 280 relating to a dispute for breach of contract. It alleges that it was engaged by the Newcastle Municipality to perform services as a project manager. Should Singatha be successful the municipality will be liable for damages claimed and legal costs.

Plaintiff: ADZ Construction CC

There is litigation process against the municipality relating to a dispute with ADZ Construction CC, who is seeking R1 248 491 for breach of contract. It alleges that the contract was unlawfully terminated. If successful the municipality will be liable for damages claimed and legal costs.

Plaintiff: Fedcon and Ngwenya

There is litigation process against the municipality relating to a dispute with Fedcon, one of the political parties within the municipality. Fedcon is comprised of two factions, one which has a seat in Council and one which has another outside Council. The faction outside of Council claims to be the rightful political party and have sought to remove the incumbent Fedcon Councillor and replace him with candidate of their choice. Fedcon is also seeking damages of R400 000 in salaries to be paid to the incumbent Councillor to the litigating faction.

Plaintiff: Wonder Xaba and Others

There is a litigation process against the municipality relating to a dispute whereby Wonder Xaba and Others comprising 141 Expanded Public Works Programme employees have sought damages amounting to R355 320 (R2 520 per employee) for terminating employment contracts. Should Wonder Xaba and Others be successful, the municipality will be liable for damages claimed.

Plaintiff: Clover S.A (Proprietary) Limited

There is a litigation process against the municipality relating to a dispute whereby Clover S.A (Proprietary) Limited whereby is seeking damages amounting to R39 100 for damage to its company vehicle. Should Clover S.A (Proprietary) Limited be successful, the municipality will be liable for damages claimed.

Wage curve agreement

The municipality has not implemented TASK as at 30 June 2014. The municipality has developed job descriptions and submitted them to the job evaluation committee however the results of the evaluation have not yet been received therefore the obligation relating to the implementation of TASK cannot be measured with sufficient reliability. The matter is currently under dispute in

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

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### 42. Contingencies (continued)

court between SALGA and Unions.

### 43. Prior period errors

#### Investment property

Comparison of the asset register and the General Valuation Roll identified Investment Property of R3 200 000 which were previously not included in the asset register and accounting records.

#### Investment in associates

##### Projects

Assets (i.e. capital projects) amounting to R21 854 249 was constructed on behalf of UThukela Water (Proprietary) Limited was capitalised to the Investment in Associate in 2013. This value was subsequently reversed to Accumulated surplus in the current year.

##### Bulk water purchases

Bulk water purchases from Uthukela Water (Proprietary) Limited amounting to R53 632 958 was incorrectly capitalised to the investment in associate in 2013. Bulk water purchases was subsequently reversed from the cost of the investment and expensed in the current year.

##### Share of losses in associate

Share of loss from the investment in associate was incorrectly calculated at R121 570 165 in 2013. R50 075 859 should have been recognised as share of losses in Uthukela Water. The difference of R71 494 306 was reversed in the current year.

##### Impairment of investment

An impairment assessment of the investment in associate was not performed in 2013. This was performed in the current year. Impairment of R179 294 688 was subsequently recognised for 2013 in the current year.

##### Property plant and equipment

Property, plant and equipment was recognised and depreciated as globular amounts in the asset register. Provision for Depreciation reflected in the financial statements in 2013 was calculated on globular amounts recognised. In the current year, the Municipality engaged a service provider to componentise the aforementioned assets into their major components and depreciate by their remaining useful life.

##### Heritage assets

Property plant and equipment of R7 419 was incorrectly classified as Heritage assets in prior years. This was corrected in the current year.

##### Receivables from non-exchange transactions

Uncollected fine revenue from traffic offenders was previously not recognised and accrued for as debtors from non-exchange transactions. In the current year the Municipality retrospectively accounted for and tested for the impairment of irrecoverable fine revenue.

##### Accruals

Payables from exchange transactions (i.e. Accruals) of R278 459 was understated in 2013 as a result of an accrual raised exclusive of VAT.

##### Unspent conditional grants and receipts

Input VAT on grant expenditure was not recognised as income from grants and subsidies in 2013. As a result, revenue from grants and subsidies was understated by R20 028 231.

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand 2014 2013

### 43. Prior period errors (continued)

#### Statement of financial position

Investment property	-	3 200 000
Investment in associates - Completed projects	-	(21 854 249)
Investment in associates - Bulk water purchases capitalised	-	(53 632 958)
Investment in associates - Share of losses	-	71 494 306
Investment in associates - Impairment	-	(179 294 688)
Property, plant and equipment - Cost	-	(10 855 305)
Property, plant and equipment - Accumulated depreciation	-	40 421 396
Heritage assets - Cost	-	(7 418)
Debtors from non-exchange revenue	-	21 352 522
Provision for doubtful debts from non-exchange revenue	-	(14 766 447)
Trade and other payables	-	(278 459)
Accumulated surplus	-	(15 642 482)

#### Statement of Financial Performance

Grant revenue & Subsidies	-	(20 028 231)
Fines	-	(5 088 613)
Contribution to provision for doubtful debts from traffic fine revenue	-	3 519 056
Bulk purchases - Uthukela Water (Proprietary) Limited	-	53 632 958
Share of loss in associates - Uthukela Water (Proprietary) Limited	-	(71 494 306)
Impairment of investment in associates	-	179 294 688

### 44. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

#### Statement of financial position

Receivables from exchange transactions	-	21 079 372
VAT receivable	-	20 943 694
Consumer debtors	-	(1 305 274)
Payables from exchange transactions	-	40 996 251

#### Statement of Financial Performance

Fees - Advertising, Plans and Sewage blockages	-	(1 389 843)
Property rates	-	(8 947 331)
Service charges	-	13 037 594
Other income	-	(1 696 533)
Fee income	-	(1 003 888)
Interest received	-	111 883
Employee related costs	-	(2 928 390)
Finance costs	-	(111 883)
Repairs and maintenance	-	755
General expenses	-	23 892 568
Gains/(losses) on actuarial valuation	-	(20 964 933)

### Disclosures

The misappropriation of electricity receipts and alleged irregular payments amounting to R580 174 and R2 267 454 has been reclassified in the current year.

Irregular expenditure	(R2 847 628)
Material losses	R2 847 628

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand 2014 2013

### 45. Risk management

#### Liquidity risk

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

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

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

#### 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.

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

No credit limits were exceeded during the reporting period, and management does not expect any deficits from non-performance by these counterparties.

### 46. Going concern

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

### 47. Unauthorised expenditure

No instances of unauthorised expenditure were identified by the municipality for the current financial year (2013: Nil).

### 48. Fruitless and wasteful expenditure

No instances of fruitless and wasteful expenditure was identified by the municipality for the current financial year (2013: R203 334).

### 49. Irregular expenditure

Opening balance	79 456 544	24 966 255
Add: Irregular Expenditure - current year	57 203 428	55 032 583
Less: Amounts written-off (prior years)	(65 998 067)	(542 294)
Less: Amounts written-off (current year)	(2 257 355)	-
	<u>68 404 550</u>	<u>79 456 544</u>

#### Analysis of expenditure awaiting write-off per age classification

Current year	54 946 073	54 490 289
Prior years	11 201 123	24 966 255
	<u>66 147 196</u>	<u>79 456 544</u>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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### 49. Irregular expenditure (continued)

#### Details of irregular expenditure – current year

Awards were made to the following suppliers in which municipal employees have interest:

LETHUKUTHULA PRECIOUS HADEBE/ZWANE ILIMA EVENTS MANAGEMENT SIGASA VH NZIMANDE RS		463 400
MHLONGO SM MWELASE DG PHAKATHI BL	PM SQUARED INVESTMENTS ILIMA EVENTS MANAGEMENT UMZIKAZI INVESTMENTS CC MBANSA TRADING ENTERPRISE MZILANKALA DEVELOPMENT AND PROJECTS	692 382 463 400 338 600 75 000 101 360
NGWENYA JJ MBATHA NE HARILAL A	DAUBS TRADING CC FOR GENERAL TRADE POSHNOSH SUPER LITE TRADING CC	26 456 20 711 73 253
		<b>2 254 562</b>

The following contracts were entered into without following the proper competitive bidding processes:

VODACOM	2 043 399
MODERN MATTRESS MANUFACTURING	457 499
INSIKELELO TRADING AND PROJECTS	994 500
29/2012: MLOKOTHTWA CONSTRUCTION AND MANAGEMENT SERVICES CC	8 822 879
172/2012: LOWVELD MATERIAL HANDLERS AND SUPERGOLD TRADING 177 CC	4 923 975
208/2012: SANDMAN SIZAZONKE CC	2 000 948
07/2013: CHRISCON CIVILS AND MT ZONDO JV	7 756 453
153/2013: CASTLE CONSTRUCTION HIRE	222 300
134/2013: BEE AND TEE CONSTRUCTION	9 300 786
119/2013: THEMBALETHU CIVILS	6 923 076
230/2013: M T ZONDO CONSTRUCTION CC	6 344 237
213/2013: IZIGI ZE-AFRICA CONSTRUCTION & KWATHE LA BUSINESS ENTERPRISE JV	925 452
LOKOTHWAYO TRADING CC	450 000
ILANGA LIGHTING DISTRIBUTION CO. PTY LTD	304 950
	<b>51 470 454</b>

Below are details of deemed irregular expenditure which were incurred during the current financial year as a result of payments made by the municipality to suppliers whose contracts have since expired:

Gijima Holdings (Pty) Ltd	315 369
Ithala Properties	164 817
G4S Solutions SA	245 295
BMS Computing	430 617
Bytes Xerox Sa	280 548
Kuntwela Ezansi Venture	820 709
	<b>2 257 355</b>

The municipality did not comply with the provisions of the South African Local Government Bargaining Council Collective Agreement during the current financial year as a result of Acting Allowances paid to employees that exceeded the time frame permitted to acting in a position and where no application for exemption was made to act in a position for more than six months.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>49. Irregular expenditure (continued)</b>		
Acting Allowances paid		1 221 057
<b>Awards made to spouses or family members of employees in service of the state</b>		
ELLIONORAH LUSHABA	AMEHLO ESIZWE DEVELOPMENT AND ESTATE CC	139 816
CELIWE CHARITY NGUBENI	WECEBO TRADING ENTERPRISE CC	59 500
MAKHOSAZANE VICTORIA MAVIMBELA	DAVITO TRADING CC	1 034 187
NIKIWE STHANDESONKE VIRGINIA MAHLANGU	STHANDESONKE COMMUNITY SERVICES	528 133
ISABEL BONISILE NCALA	ZAMLANDA CATERERS CC	9 200
DUNCAN WILBERFORCE NCALA		
EMMANUEL NGUBO	MANATTY TRADING	64 585
WELLINGTON NKOSINATHI KUNENE	UMZIKAZI INVESTMENTS CC	338 600
SIBUSISO CYRIL LESLEY NYANDENI	VUMISA CONTRACTING AND TRADING CC	559 102
MANGI ABIDE MAGADLA	AMANZI TRADING	397 800
YACOOB MAMOOJEE MOOLLA	ZENITH CELLULAR CC	28 421
MBUSO ZONDI	MATHUNYWAVUME INVESTMENTS CC	1 023
JABULILE MAVIS MTHETHWA	BAMAZI TRADING ENTERPRISE	10 891
SHERILLA MAHARAJ	NEWCASTLE COMPUTECH & STATIONERY	23 286
SANTY LAWRENCE DUBE	ASANDA AMATIMBA CONTRACTORS CC	335 000
SIBUSISIWE DHLAMINI	KUHLE MOYA WAMI TRADING ENTERPRISE	299 000
GLADYS SIBONGILE MSIBI	MUNICIPAL WASTE REMOVAL SERVICES NEWCASTLE CC	3 464 945
KHEHLA SAMUEL MTHEMBU	SUN INTERNATIONAL LIMITED	44 013
KHOMOTSO RAMASELA MTHIMUNYE	MINOLCO (PTY) LTD	565 289
AMBALAVANAN MOGANNA NAIDU	PDNA CONSULTING ENGINEERS	417 188
SINDISWA VICTORIA ZILWA	GIJIMA HOLDINGS (PTY) LTD	233 824
ASHWIN HIRJEE TRIKAMJEE		
MARK BUSSIN		
THABO GIDEON MOKGATLE	VESTA TECHNICAL SERVICES (PTY) LTD	2 640 000
NOMKHITA PRINCESS MONA	TREN TYRE (PTY) LTD	923 910
MATHUKANA GIVION MOKOKA	SCHINDLER LIFTS SA (PTY) LTD	16 496
		-
		<b>12 134 209</b>

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

### Contributions to organised local government

Current year subscription	2 521 737	1 017 544
Amount paid - current year	(2 521 737)	(1 017 544)
	<u>-</u>	<u>-</u>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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

#### Material losses

Opening balance	2 847 628	-
Current year movement	1 145 257	2 847 628
	<u>3 992 885</u>	<u>2 847 628</u>

The municipality incurred losses of R1 145 257 (2013: R2 847 628 refer note 48).

Current year material losses comprise theft of cash amounting to R12 213 (i.e. consumer receipts) by a municipal employee. This matter has since been reported to the South Africa Police Services and the employee suspended pending the results of a criminal investigation.

In an arbitration matter, an agreement was reached where the municipality had agreed to pay a settlement of R1 132 944 to an employee for not following proper recruitment process and subsequent termination of employment.

#### Audit fees

Current year fees	2 904 696	3 747 944
Amount paid - current year	(2 807 795)	(3 747 944)
	<u>96 901</u>	<u>-</u>

#### PAYE and UIF

Current year payroll deductions	48 973 576	35 708 752
Amount paid - current year	(48 973 576)	(35 708 752)
	<u>-</u>	<u>-</u>

#### Pension and Medical Aid Deductions

Opening balance	4 356 753	-
Current year payroll deductions	73 087 431	41 081 130
Amount paid - current year	(77 444 184)	(36 724 377)
	<u>-</u>	<u>4 356 753</u>

#### VAT

VAT receivable	<u>34 801 284</u>	<u>68 070 371</u>
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All VAT returns have been submitted by the due date throughout the year.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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### 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 at 30 June 2014:

30 June 2014	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr CN Mkhize	4 167	30 608	34 775
Cllr C Mkhize	67	2 935	3 002
Cllr CN Mkhize	7 255	31 165	38 420
Cllr ZJ Mbatha	933	3 977	4 910
Cllr MS Mlangeni	594	6 470	7 064
Cllr MP Ngobese	1 866	46 469	48 335
Cllr MO Mdlalose	616	2 636	3 252
Cllr MS Mlangeni	993	9 749	10 742
Cllr MS Mlangeni	1 219	2 555	3 774
Cllr EM Nyembe	277	1 209	1 486
Cllr DO Shabalala	1 848	6 872	8 720
Cllr MF Zikhali	844	930	1 774
Cllr MM Zwane	1 452	25 728	27 180
Cllr ME Zwane	1 933	3 853	5 786
Cllr MV Buhali	662	33 876	34 538
Cllr SJ Zulu	-	114	114
Cllr SJ Zulu	689	2 978	3 667
Cllr ME Zwane	1 534	6 530	8 064
Cllr DE Tshabalala	492	2 401	2 893
Cllr DJZ Nkosi	1 160	3 998	5 158
Cllr NP Kunene	-	1 866	1 866
Cllr FP Gama	320	1 594	1 914
Cllr NP Kunene	2 046	3 283	5 329
Cllr MS Mlangeni	5 602	50 666	56 268
	<b>36 569</b>	<b>282 462</b>	<b>319 031</b>
30 June 2013	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr MV Buhali	1 105	44 754	45 859
Cllr SSE Buthelezi	1 007	1 031	2 038
Cllr JK Gabuza	736	2 959	3 695
Cllr CN Mkhize	5 273	29 160	34 433
Cllr CN Mkhize	3 108	30 914	34 022
Cllr MS Mlangeni	671	661	1 332
Cllr MG Mlangeni	434	4 036	4 470
Cllr MP Ngobese	1 862	53 622	55 484
Cllr DJZ Nkosi	831	620	1 451
Cllr EM Nyembe	188	633	821
Cllr DO Shabalala	1 240	5 965	7 205
Cllr DE Tshabalala	222	645	867
Cllr EM Zungu	5 218	753	5 971
Cllr MM Zwane	1 275	16 437	17 712
Cllr ME Zwane	1 242	635	1 877
Cllr ME Zwane	1 032	3 890	4 922
Cllr SSE Mbokazi	23 400	249 653	273 053
	<b>48 844</b>	<b>446 368</b>	<b>495 212</b>

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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### 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 annual financial statements.

Various items were procured during the year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Deviation from Municipal Supply Chain Management Regulations amounted to R8 411 376 (2013: R4 026 733) which are made up as follows:

#### Deviations

Section 16	702 108	506 663
Section 17	1 246 626	1 025 431
Section 36	6 462 642	2 494 639
	<u>8 411 376</u>	<u>4 026 733</u>

### 52. Transfer of functions - UThukela Water

The effect on the account balances as a result of the transfer of assets and liabilities transferred between Newcastle Municipality and UThukela Water (Proprietary) Limited as at 01 July 2013:

#### Summary of assets and liabilities transferred:

Non-current assets	571 567 895	
Eskom deposits	950 679	
Water stock (01 July 2013)	362 171	
DBSA loans	(16 138 617)	
Staff liabilities	(2 396 035)	
Portion of UThukela Water meter loan written-off	(2 052 917)	
	<u>552 293 176</u>	

### 53. Electricity distribution losses

Purchases (KWH)	714 428 173	704 908 108
Less:		
Sales (KWH)	(668 937 270)	(662 522 083)
Loss of Units	45 490 903	42 386 025
% Loss	6	6
Estimated cost per unit - Cents	45	40
Estimated cost of loss (Rands)	20 257 501	16 954 410

# Newcastle Municipality

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### 53. Electricity distribution losses (continued)

Electricity distribution losses are comprised of the following:

#### Administrative losses

Administrative losses refers to the difference between the income generated from electricity delivered to consumers and the actual amount of revenue that is recovered. The collection rate of electricity billed is approximately 99,5%. Administrative losses are minimal as the collaboration between the Budget and Treasury Office and the Electricity Department ensures that cut-offs are effected on all unpaid accounts.

#### Technical losses:

Technical losses within the municipality are made up of standard line losses, unmetered own consumption, free basic electricity, street lighting and traffic lights. Standard line losses account for approximately 2% of the total energy delivered to the municipality. Street lighting contribute approximately 3600KWh per annum which equates to approximately 8% (3 600 000kWh) of electricity distribution losses.

The municipality has planned and budgeted over the next three years to retrofit street lights with energy efficient bulkheads, as well as to retrofit lighting within municipality buildings. Traffic lights have been retrofitted with LED lights and contribute approximately 0.04% (20 000kWh).

#### Non-technical losses:

Non-technical losses refers to unrecorded electricity delivery. Illegal connections, faulty and incorrect calibration of meters contribute to consumption not being recorded.

### 54. Water distribution losses

Input volume (Kl)	31 813 236
Water loss (Kl)	10 705 638
Water loss (33.6%)	
Bulk Tariff (R2.46/Kl)	
Water loss (Rands)	26 335 869

UThukela Water (Proprietary) Limited had previously accounted for water reticulation and bulk assets.function as at 01 July 2013 therefore no water distribution losses have been reflected for the comparative period.

### 55. Change in estimate

#### Provision for rehabilitation costs

The provision for landfill site rehabilitation costs was estimated at R28 939 999 in 2012. In the current year management revised their estimate to R30 800 000.

#### The impact of this revision in the current and future periods is as follows:

Increase in assets	R1 860 001
Increase in depreciation	R620 000

# Newcastle Municipality

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## Notes to the Annual Financial Statements

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<b>56. Related parties</b>		
<b>Relationships</b>		
Investment in associates	Refer to note 7	
<b>Related party balances</b>		
<b>Loan accounts - Owing by UThukela Water (Proprietary) Limited</b>		
UThukela Water Meter Loan	3 003 770	4 344 297
<b>Investment in Associates</b>		
Share of losses - Uthukela Water (Proprietary) Limited	(14 248 537)	(50 075 539)
<b>Related party transactions</b>		
<b>Bulk water purchases from UThukela Water (Proprietary) Limited</b>		
UThukela Water (Proprietary) Limited	52 805 805	53 632 958
<b>Capital contributions paid to Uthukela Water (Proprietary) Limited</b>		
UThukela Water (Proprietary) Limited	-	65 442 722
<b>Compensation to accounting officer and other key management reflected in Note 27</b>		

### 57. Write-off of financial account balances

#### Background

The municipality could not fully substantiate adjustments and the movements in the accumulated surplus in the prior years. Some transactions were processed directly into the accumulated surplus. As a result the municipality could not demonstrate that a prior year error adjustment was accurately and correctly recorded.

Paragraph .45 of GRAP3 states that "a prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period specific effects or the cumulative effect of the error".

The municipality has attempted to reconcile the accumulated surplus however due to the complexity and the volume of transactions processed to the accumulated surplus in prior years this could not be performed.

The municipality performed a detailed exercise in the current year where all assets and liabilities' account balances were reconciled. The consequential effect of which would mean that the municipality's equity, especially the accumulated surplus, would be correctly valued.

While reconciling assets and liabilities, it was noted that a number of account balances could not be reconciled.

### 58. Events after the reporting date

The municipality initially provided for input VAT of R25 594 372 that was deemed not recoverable from SARS. R9 079 987 was received after reporting date.