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# **NEWCASTLE MUNICIPALITY**

(Registration number KZ252)

## **ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## General Information

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### Mayor

Executive Committee

Cllr EM Nkosi  
Cllr VV Bam  
Cllr RN Mdluli  
Cllr EJC Cronje  
Cllr RN Molelekoa  
Cllr M Shunmgam  
Cllr DP Sibiyi(Deputy Mayor)

### Councillors

Cllr NA Zwane  
Cllr SM Thwala  
Cllr LL Bosman  
Cllr MV Buhali  
Cllr SB Buthelezi  
Cllr TJC Danisa  
Cllr XNM Dladla  
Cllr BS Dlamini  
Cllr DX Dube  
Cllr FP Gama  
Cllr VF Hadebe  
Cllr TS Hlabisa  
Cllr A Khoza  
Cllr BV Khumalo  
Cllr VD Kubheka  
Cllr NP Kunene  
Cllr CY Liu  
Cllr NK Majozi  
Cllr FA Malinga  
Cllr NY Mbatha  
Cllr AM Mbuli  
Cllr AP Meiring  
Cllr SG Miya  
Cllr HN Mkhwanazi  
Cllr JCN Mkhwanazi  
Cllr TP Mkhwanazi  
Cllr MS Mlangeni  
Cllr NG Mnguni  
Cllr MV Molefe  
Cllr MV Mthembu  
Cllr PB Mwali  
Cllr VP Nzima  
Cllr TM Ndaba  
Cllr RB Ndimba  
Cllr SS Ndlangamandla  
Cllr MS Ndlovu  
Cllr PF Ndlovu  
Cllr ME Ngcobo  
Cllr BC Ngema  
Cllr DR Ngema  
Cllr D Ngwenya  
Cllr CL Nhlapho  
Cllr SN Nkosi

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## General Information

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Cllr JB Nkwanazi  
Cllr TM Nzuzi  
Cllr SE Shabangu  
Cllr DM Sibilwane  
Cllr LT Sikhosane  
Cllr SL Stein  
Cllr GMB Thwala  
Cllr LG Thwala  
Cllr MW Thwala  
Cllr JA Voster  
Cllr SA Yende  
Cllr MF Zikhali  
Cllr NS Zulu  
Cllr SJ Zulu  
Cllr SZ Zulu  
Cllr TM Zulu  
Cllr CS Kubheka  
Cllr BS Radebe

**Grading of local authority**

4

**Accounting Officer**

BE Mswane

**Chief Finance Officer (CFO)**

BE Hlongwe

**Registered office**

37 Murchison Street  
Newcastle  
2940

**Business address**

37 Murchison Street  
Newcastle  
2940

**Postal address**

Private Bag X 6621  
Newcastle  
2940

**Bankers**

First National Bank

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Index

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

	<b>Page</b>
Accounting Officer's Responsibilities and Approval	4
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Cash Flow Statement	8
Statement of Comparison of Budget and Actual Information	9 - 13
Appropriation Statement	14 - 15
Accounting Policies	16 - 42
Notes to the Annual Financial Statements	43 - 80
Appendixes:	
Appendix A: Schedule of External loans	
Appendix B: Analysis of Property, Plant and Equipment	
Appendix F: Disclosure of Grants and Subsidies in terms of the Municipal Finance Management Act	

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## 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 2019 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 5 to 80, which have been prepared on the going concern basis, were approved by the accounting officer on 30 June 2018 and were signed on its behalf by:

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**Accounting Officer**  
**BE Mswane**

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	9	12 462 150	15 223 528
Other financial assets	8	3 621	5 791
Receivables from exchange transactions	10	64 591 613	40 287 673
Receivables from non-exchange transactions	11	13 287 220	12 116 267
Consumer debtors from exchange transactions	12	399 431 715	368 651 699
Consumer debtors from non-exchange transactions	12	84 258 496	76 203 369
Cash and cash equivalents	13	57 464 870	50 507 758
		<b>631 499 685</b>	<b>562 996 085</b>
<b>Non-Current Assets</b>			
Investment property	3	379 606 000	365 022 000
Property, plant and equipment	4	6 740 721 091	7 044 454 625
Intangible assets	5	5 585 264	8 686 539
Heritage assets	6	7 468 510	6 991 102
Investments in associates	7	275 279 106	301 163 242
		<b>7 408 659 971</b>	<b>7 726 317 508</b>
<b>Total Assets</b>		<b>8 040 159 656</b>	<b>8 289 313 593</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Other financial liabilities	16	29 483 981	32 002 485
Finance lease obligation	14	233 511	168 853
Payables from exchange transactions	19	645 662 370	451 522 945
VAT payable	20	1 775 605	2 390 525
Consumer deposits	21	18 966 524	14 334 239
Unspent conditional grants and receipts	15	56 316 815	41 556 011
Defined Benefit Plan	17	7 997 613	6 215 831
Provision for Rehabilitation of Landfill site	18	31 292 755	-
		<b>791 729 174</b>	<b>548 190 889</b>
<b>Non-Current Liabilities</b>			
Other financial liabilities	16	402 570 627	447 215 530
Finance lease obligation	14	24 309	234 909
Defined Benefit Plan	17	145 207 202	128 168 731
Provision for Rehabilitation of Landfill site	18	-	31 217 649
		<b>547 802 138</b>	<b>606 836 819</b>
<b>Total Liabilities</b>		<b>1 339 531 312</b>	<b>1 155 027 708</b>
<b>Net Assets</b>		<b>6 700 628 344</b>	<b>7 134 285 885</b>
<b>Reserves</b>			
Housing Development fund		26 076 953	25 071 001
Self insurance reserve		472 159	530 020
Accumulated surplus		6 674 079 215	7 108 684 869
<b>Total Net Assets</b>		<b>6 700 628 327</b>	<b>7 134 285 890</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017
<b>Revenue</b>			
Service charges	23	959 936 419	944 304 232
Rental of facilities and equipment	24	7 814 644	7 278 218
Sundry revenue	25	5 300 637	7 774 422
Other income	25	931 633	1 303 488
Fee income	25	11 118 686	7 696 457
Interest received	26	15 420 561	14 835 339
Property Rates	27	253 485 719	232 285 813
Government grants & subsidies	28	556 662 414	527 822 316
Fines		6 680 062	3 605 936
Gain on Actuarial Valuations		-	3 559 453
<b>Total revenue</b>		<b>1 817 350 775</b>	<b>1 750 465 674</b>
<b>Expenditure</b>			
Employee costs	29	548 805 318	495 757 667
Remuneration of councillors	30	23 164 255	20 388 761
Depreciation and amortisation	31	449 661 715	472 110 422
Impairment of assets	32	4 372 191	1 348 277
Finance costs	33	49 571 016	65 783 550
Debt Impairment	34	177 928 234	69 517 589
Bad debts written off	34	31 012 340	30 786 341
Collection costs		1 657 929	8 802 170
Bulk purchases	35	540 941 513	558 945 739
Contracted services	36	90 574 430	69 248 094
Loss on Actuarial Valuations		5 793 705	-
General Expenses	37	315 550 521	300 137 317
<b>Total expenditure</b>		<b>2 239 033 167</b>	<b>2 092 825 927</b>
<b>Operating deficit</b>		<b>(421 682 392)</b>	<b>(342 360 252)</b>
Share of deficit in investment in associates		(26 501 493)	(41 219 977)
Fair value adjustments to investment property		14 584 000	89 298 000
		<b>(11 917 493)</b>	<b>48 078 023</b>
<b>Deficit for the year</b>		<b>(433 599 885)</b>	<b>(294 282 229)</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Changes in Net Assets

Figures in Rand	Housing Development fund	Self Insurance reserve	Total reserves	Accumulated surplus	Total net assets
<b>Balance at 01 July 2016</b>	<b>26 037 234</b>	<b>708 555</b>	<b>26 745 789</b>	<b>7 424 242 101</b>	<b>7 450 987 890</b>
Changes in net assets					
Deficit for the year	-	-	-	(294 282 230)	(294 282 230)
Transfer from Housing Development Fund	(966 233)	-	(966 233)	966 233	-
Transfer from Self Insurance Reserve	-	(178 535)	(178 535)	178 535	-
Recognising Nedbank Deposit	-	-	-	375 174	375 174
Adjustments on assets	-	-	-	(557 222)	(557 222)
Prior Year Adjustment error (Refer note 43 )	-	-	-	(12 627 060)	(12 627 060)
Prior Year Adjustments - 2016/17 accruals	-	-	-	(493 233)	(493 233)
Prior Year Adjustment - Consumer debtors	-	-	-	(9 117 429)	(9 117 429)
Total changes	(966 233)	(178 535)	(1 144 768)	(315 557 232)	(316 702 000)
<b>Balance at 01 July 2017</b>	<b>25 071 001</b>	<b>530 020</b>	<b>25 601 021</b>	<b>7 108 684 886</b>	<b>7 134 285 907</b>
Deficit for the year	-	-	-	(433 599 885)	(433 599 885)
Transfer to Housing Development	1 005 952	-	1 005 952	(1 005 952)	-
Transfer from Self Insurance Reserve	-	(57 861)	(57 861)	57 861	-
Prior year Adjustments on Assets	-	-	-	(57 695)	(57 695)
Total changes	1 005 952	(57 861)	948 091	(434 605 671)	(433 657 580)
<b>Balance at 30 June 2018</b>	<b>26 076 953</b>	<b>472 159</b>	<b>26 549 112</b>	<b>6 674 079 215</b>	<b>6 700 628 327</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Cash Flow Statement

Figures in Rand	Note(s)	2018	2017
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		1 059 516 765	1 077 201 316
Grants		556 662 414	536 797 337
Interest income		15 420 561	14 835 339
		<u>1 631 599 740</u>	<u>1 628 833 992</u>
<b>Payments</b>			
Employee costs and Councillors remuneration		(571 969 573)	(516 146 428)
Suppliers		(765 694 455)	(813 215 792)
Finance costs		(49 571 016)	(65 783 550)
		<u>(1 387 235 044)</u>	<u>(1 395 145 770)</u>
<b>Net cash flows from operating activities</b>	39	<b><u>244 364 696</u></b>	<b><u>233 688 222</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(178 368 024)	(219 374 430)
Purchase of other intangible assets	5	(4 879)	(26 590)
Purchases of Heritage Assets	6	-	(4 850)
		<u>(178 372 903)</u>	<u>(219 405 870)</u>
<b>Net cash flows from investing activities</b>		<b><u>(178 372 903)</u></b>	<b><u>(219 405 870)</u></b>
<b>Cash flows from financing activities</b>			
Net movements in long term loans		(58 824 081)	(8 659 637)
Movement on finance lease		(210 600)	312 148
		<u>(59 034 681)</u>	<u>(8 347 489)</u>
<b>Net cash flows from financing activities</b>		<b><u>(59 034 681)</u></b>	<b><u>(8 347 489)</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>6 957 112</b>	<b>5 934 863</b>
Cash and cash equivalents at the beginning of the year		50 507 758	44 572 895
<b>Cash and cash equivalents at the end of the year</b>	13	<b><u>57 464 870</u></b>	<b><u>50 507 758</u></b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Information

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	991 996 882	7 005 213	<b>999 002 095</b>	959 936 419	<b>(39 065 676)</b>	Refer to Annexure E
Rental of facilities and equipment	8 074 599	(218 333)	<b>7 856 266</b>	7 814 644	<b>(41 622)</b>	
Profit on sale of Assets	2 000 000	-	<b>2 000 000</b>	-	<b>(2 000 000)</b>	
Other income	4 588 707	2 534 600	<b>7 123 307</b>	5 300 637	<b>(1 822 670)</b>	
Sundry sales	1 408 957	(265 891)	<b>1 143 066</b>	931 633	<b>(211 433)</b>	
Fee income	9 801 415	12 491 426	<b>22 292 841</b>	11 118 686	<b>(11 174 155)</b>	
Interest received	17 176 838	(335 104)	<b>16 841 734</b>	15 420 561	<b>(1 421 173)</b>	
<b>Total revenue from exchange transactions</b>	<b>1 035 047 398</b>	<b>21 211 911</b>	<b>1 056 259 309</b>	<b>1 000 522 580</b>	<b>(55 736 729)</b>	
<b>Revenue from non-exchange transactions</b>						
Property rates	264 325 097	(7 283 592)	<b>257 041 505</b>	253 485 719	<b>(3 555 786)</b>	Refer to Annexure E
<b>Transfer revenue</b>						
Government grants & subsidies	345 790 000	33 216 245	<b>379 006 245</b>	556 662 414	<b>177 656 169</b>	
Fines, Penalties and Forfeits	5 203 136	369 194	<b>5 572 330</b>	6 680 062	<b>1 107 732</b>	
<b>Total revenue from non-exchange transactions</b>	<b>615 318 233</b>	<b>26 301 847</b>	<b>641 620 080</b>	<b>816 828 195</b>	<b>175 208 115</b>	
<b>Total revenue</b>	<b>1 650 365 631</b>	<b>47 513 758</b>	<b>1 697 879 389</b>	<b>1 817 350 775</b>	<b>119 471 386</b>	
<b>Expenditure</b>						
Employee costs	(514 737 492)	(3 742 110)	<b>(518 479 602)</b>	(548 805 318)	<b>(30 325 716)</b>	Refer to Annexure E
Remuneration of councillors	(23 219 286)	-	<b>(23 219 286)</b>	(23 164 255)	<b>55 031</b>	
Depreciation and amortisation	(247 894 714)	(246 346 590)	<b>(494 241 304)</b>	(449 661 715)	<b>44 579 589</b>	
Impairment loss/ Reversal of impairments	-	-	-	(4 372 191)	<b>(4 372 191)</b>	
Finance costs	(47 155 450)	(192 320)	<b>(47 347 770)</b>	(49 571 016)	<b>(2 223 246)</b>	
Debt Impairment	(101 807 371)	(52 858 576)	<b>(154 665 947)</b>	(208 973 534)	<b>(54 307 587)</b>	
Collection costs	(5 700 000)	2 230 000	<b>(3 470 000)</b>	(1 657 929)	<b>1 812 071</b>	
Bulk purchases	(579 385 013)	5 008 695	<b>(574 376 318)</b>	(540 941 513)	<b>33 434 805</b>	
Contracted Services	(33 821 492)	(44 102 435)	<b>(77 923 927)</b>	(90 574 430)	<b>(12 650 503)</b>	
General Expenses	(191 706 738)	(29 452 058)	<b>(221 158 796)</b>	(315 550 522)	<b>(94 391 726)</b>	
Loss on Actuarial Valuations	-	-	-	(5 793 705)	<b>(5 793 705)</b>	
<b>Total expenditure</b>	<b>(1 745 427 556)</b>	<b>(369 455 394)</b>	<b>(2 114 882 950)</b>	<b>(2 239 066 128)</b>	<b>(124 183 178)</b>	
<b>Operating deficit</b>	<b>(95 061 925)</b>	<b>(321 941 636)</b>	<b>(417 003 561)</b>	<b>(421 715 353)</b>	<b>(4 711 792)</b>	
Share of Surplus/Deficit of Investment in Associates	-	-	-	(26 501 493)	<b>(26 501 493)</b>	
Fair value adjustment to investment property	-	-	-	14 584 000	<b>14 584 000</b>	
	-	-	-	<b>(11 917 493)</b>	<b>(11 917 493)</b>	

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Information

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Deficit before taxation</b>	<b>(95 061 925)</b>	<b>(321 941 636)</b>	<b>(417 003 561)</b>	<b>(433 632 846)</b>	<b>(16 629 285)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>(95 061 925)</b>	<b>(321 941 636)</b>	<b>(417 003 561)</b>	<b>(433 632 846)</b>	<b>(16 629 285)</b>	

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Information

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	13 648 260	1 017 521	<b>14 665 781</b>	12 462 150	<b>(2 203 631)</b>	Refer to Annexure E
Other financial assets	3 602	-	<b>3 602</b>	3 621	<b>19</b>	
Receivables from exchange transactions	31 162 167	-	<b>31 162 167</b>	64 591 613	<b>33 429 446</b>	
Receivables from non-exchange transactions	62 012 000	-	<b>62 012 000</b>	13 287 220	<b>(48 724 780)</b>	
Consumer debtors	163 022 468	95 720 532	<b>258 743 000</b>	483 690 209	<b>224 947 209</b>	
Cash and cash equivalents	47 287 518	(47 115 427)	<b>172 091</b>	57 464 870	<b>57 292 779</b>	
	<b>317 136 015</b>	<b>49 622 626</b>	<b>366 758 641</b>	<b>631 499 683</b>	<b>264 741 042</b>	
<b>Non-Current Assets</b>						
Investment property	281 493 480	83 774 000	<b>365 267 480</b>	379 606 000	<b>14 338 520</b>	
Property, plant and equipment	7 005 862 450	(92 162 000)	<b>6 913 700 450</b>	6 740 721 091	<b>(172 979 359)</b>	
Intangible assets	6 877 022	326 554	<b>7 203 576</b>	5 585 264	<b>(1 618 312)</b>	
Heritage assets	6 025 447	966 102	<b>6 991 549</b>	7 468 510	<b>476 961</b>	
Investments in associates	346 321 389	(45 157 758)	<b>301 163 631</b>	275 279 106	<b>(25 884 525)</b>	
	<b>7 646 579 788</b>	<b>(52 253 102)</b>	<b>7 594 326 686</b>	<b>7 408 659 971</b>	<b>(185 666 715)</b>	
<b>Total Assets</b>	<b>7 963 715 803</b>	<b>(2 630 476)</b>	<b>7 961 085 327</b>	<b>8 040 159 654</b>	<b>79 074 327</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Other financial liabilities	32 002 485	-	<b>32 002 485</b>	29 483 981	<b>(2 518 504)</b>	
Finance lease obligation	-	-	-	233 511	<b>233 511</b>	
Payables from exchange transactions	150 101 125	85 176 320	<b>235 277 445</b>	645 662 370	<b>410 384 925</b>	
VAT payable	-	-	-	1 775 605	<b>1 775 605</b>	
Consumer deposits	13 477 882	2 740 324	<b>16 218 206</b>	18 966 524	<b>2 748 318</b>	
Unspent conditional grants and receipts	10 000 000	(10 000 000)	-	56 316 815	<b>56 316 815</b>	
Defined Benefit Plan	6 455 301	(155 122)	<b>6 300 179</b>	7 997 613	<b>1 697 434</b>	
Provision for Rehabilitation of Landfill site	28 423 638	2 793 649	<b>31 217 287</b>	31 292 755	<b>75 468</b>	
	<b>240 460 431</b>	<b>80 555 171</b>	<b>321 015 602</b>	<b>791 729 174</b>	<b>470 713 572</b>	
<b>Non-Current Liabilities</b>						
Other financial liabilities	397 125 000	-	<b>397 125 000</b>	402 570 627	<b>5 445 627</b>	
Finance lease obligation	-	-	-	24 309	<b>24 309</b>	
Defined Benefit Plan	109 159 779	19 008 731	<b>128 168 510</b>	145 207 202	<b>17 038 692</b>	
	<b>506 284 779</b>	<b>19 008 731</b>	<b>525 293 510</b>	<b>547 802 138</b>	<b>22 508 628</b>	
<b>Total Liabilities</b>	<b>746 745 210</b>	<b>99 563 902</b>	<b>846 309 112</b>	<b>1 339 531 312</b>	<b>493 222 200</b>	
<b>Net Assets</b>	<b>7 216 970 593</b>	<b>(102 194 378)</b>	<b>7 114 776 215</b>	<b>6 700 628 342</b>	<b>(414 147 873)</b>	

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Information

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Housing Development Fund	27 492 477	(1 861 420)	<b>25 631 057</b>	26 076 953	<b>445 896</b>	
Insurance reserve	1 056 047	(592 843)	<b>463 204</b>	472 159	<b>8 955</b>	
Accumulated surplus	7 188 422 069	(99 740 115)	<b>7 088 681 954</b>	6 674 079 208	<b>(414 602 746)</b>	
<b>Total Net Assets</b>	<b>7 216 970 593</b>	<b>(102 194 378)</b>	<b>7 114 776 215</b>	<b>6 700 628 320</b>	<b>(414 147 895)</b>	

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Information

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Sale of goods	1 085 350 364	(17 301 357)	<b>1 068 049 007</b>	1 059 549 726	<b>(8 499 281)</b>	
Grants	580 132 000	(4 967 627)	<b>575 164 373</b>	571 242 725	<b>(3 921 648)</b>	
Interest received	8 372 802	1 001 277	<b>9 374 079</b>	15 420 561	<b>6 046 482</b>	
	<b>1 673 855 166</b>	<b>(21 267 707)</b>	<b>1 652 587 459</b>	<b>1 646 213 012</b>	<b>(6 374 447)</b>	
<b>Payments</b>						
Employee costs and payments to suppliers	(1 335 927 214)		<b>-(1 335 927 214)</b>	(1 364 002 632)	<b>(28 075 418)</b>	
Finance costs	(47 135 450)	(212 320)	<b>(47 347 770)</b>	(49 571 016)	<b>(2 223 246)</b>	
	<b>(1 383 062 664)</b>	<b>(212 320)</b>	<b>(1 383 274 984)</b>	<b>(1 413 573 648)</b>	<b>(30 298 664)</b>	
<b>Net cash flows from operating activities</b>	<b>290 792 502</b>	<b>(21 480 027)</b>	<b>269 312 475</b>	<b>232 639 364</b>	<b>(36 673 111)</b>	
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment	(253 778 405)	20 915 192	<b>(232 863 213)</b>	(178 368 024)	<b>54 495 189</b>	
Proceeds from sale of property, plant and equipment	2 000 000	-	<b>2 000 000</b>	-	<b>(2 000 000)</b>	
Purchase of other intangible assets	-	-	-	(4 879)	<b>(4 879)</b>	
<b>Net cash flows from investing activities</b>	<b>(251 778 405)</b>	<b>20 915 192</b>	<b>(230 863 213)</b>	<b>(178 372 903)</b>	<b>52 490 310</b>	
<b>Cash flows from financing activities</b>						
Movement in long term loans	(32 002 485)	-	<b>(32 002 485)</b>	(47 163 407)	<b>(15 160 922)</b>	
Finance lease payments	-	-	-	(145 941)	<b>(145 941)</b>	
Consumer deposits	264 000	1 620 000	<b>1 884 000</b>	-	<b>(1 884 000)</b>	
<b>Net cash flows from financing activities</b>	<b>(31 738 485)</b>	<b>1 620 000</b>	<b>(30 118 485)</b>	<b>(47 309 349)</b>	<b>17 190 863</b>	
Net increase/(decrease) in cash and cash equivalents	7 275 612	1 055 165	<b>8 330 777</b>	6 957 112	<b>33 008 062</b>	
Cash and cash equivalents at the beginning of the year	40 012 000	10 495 758	<b>50 507 758</b>	50 507 758	-	
<b>Cash and cash equivalents at the end of the year</b>	<b>47 287 612</b>	<b>11 550 923</b>	<b>58 838 535</b>	<b>57 464 870</b>	<b>33 008 062</b>	

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## 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. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>2018</b>											
<b>Financial Performance</b>											
Property rates	264 325 097	(7 283 592)	257 041 505	-	-	257 041 505	253 485 719	-	(3 555 786)	99 %	96 %
Service charges	991 996 882	7 005 213	999 002 095	-	-	999 002 095	959 936 419	-	(39 065 676)	96 %	97 %
Investment revenue	17 176 838	(335 104)	16 841 734	-	-	16 841 734	15 420 561	-	(1 421 173)	92 %	90 %
Transfers recognised - operational	345 790 000	33 216 245	379 006 245	-	-	379 006 245	556 662 414	-	177 656 169	147 %	161 %
Other own revenue	31 076 814	14 910 996	45 987 810	-	-	45 987 810	31 845 662	-	(14 142 148)	69 %	102 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>1 650 365 631</b>	<b>47 513 758</b>	<b>1 697 879 389</b>	<b>-</b>	<b>-</b>	<b>1 697 879 389</b>	<b>1 817 350 775</b>	<b>-</b>	<b>119 471 386</b>	<b>107 %</b>	<b>110 %</b>
Employee costs	(514 737 492)	(3 742 110)	(518 479 602)	-	-	(518 479 602)	(548 805 318)	-	(30 325 716)	106 %	107 %
Remuneration of councillors	(23 219 286)	-	(23 219 286)	-	-	(23 219 286)	(23 164 255)	-	55 031	100 %	100 %
Debt impairment	(101 807 371)	(52 858 576)	(154 665 947)	-	-	(154 665 947)	(208 973 834)	-	(54 307 887)	135 %	205 %
Depreciation and asset impairment	(247 894 714)	(246 346 590)	(494 241 304)	-	-	(494 241 304)	(449 661 715)	-	44 579 589	91 %	181 %
Finance charges	(47 155 450)	(192 320)	(47 347 770)	-	-	(47 347 770)	(49 571 016)	-	(2 223 246)	105 %	105 %
Materials and bulk purchases	(579 385 013)	5 008 695	(574 376 318)	-	-	(574 376 318)	(540 941 513)	-	33 434 805	94 %	93 %
Other expenditure	(231 228 230)	(71 324 493)	(302 552 723)	-	-	(302 552 723)	(417 948 477)	-	(115 395 754)	138 %	181 %
<b>Total expenditure</b>	<b>(1 745 427 556)</b>	<b>(369 455 394)</b>	<b>(2 114 882 950)</b>	<b>-</b>	<b>-</b>	<b>(2 114 882 950)</b>	<b>(2 239 066 128)</b>	<b>-</b>	<b>(124 183 178)</b>	<b>106 %</b>	<b>128 %</b>
<b>Surplus/(Deficit)</b>	<b>(95 061 925)</b>	<b>(321 941 636)</b>	<b>(417 003 561)</b>	<b>-</b>	<b>-</b>	<b>(417 003 561)</b>	<b>(421 715 353)</b>	<b>-</b>	<b>(4 711 792)</b>	<b>101 %</b>	<b>444 %</b>
Share of surplus (deficit) of associate	-	-	-	-	-	-	26 501 493	-	26 501 493	DIV/0 %	DIV/0 %
Fair value adjustment	-	-	-	-	-	-	(14 584 000)	-	(14 584 000)	DIV/0 %	DIV/0 %
<b>Surplus/(Deficit) for the year</b>	<b>(95 061 925)</b>	<b>(321 941 636)</b>	<b>(417 003 561)</b>	<b>-</b>	<b>-</b>	<b>(417 003 561)</b>	<b>(433 632 846)</b>	<b>-</b>	<b>(16 629 285)</b>	<b>104 %</b>	<b>456 %</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## 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. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>Cash flows</b>											
Net cash from (used) operating	290 792 502	(21 480 027)	269 312 475	-		269 312 475	244 364 696		(24 947 779)	91 %	84 %
Net cash from (used) investing	(251 778 405)	20 915 192	(230 863 213)	-		(230 863 213)	(178 372 903)		52 490 310	77 %	71 %
Net cash from (used) financing	(31 738 485)	1 620 085	(30 118 400)	-		(30 118 400)	(59 034 681)		(28 916 281)	196 %	186 %
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>7 275 612</b>	<b>1 055 250</b>	<b>8 330 862</b>	<b>-</b>		<b>8 330 862</b>	<b>6 957 112</b>		<b>(1 373 750)</b>	<b>84 %</b>	<b>96 %</b>
Cash and cash equivalents at the beginning of the year	40 012 000	10 495 758	50 507 758	-		50 507 758	50 507 758		-	100 %	126 %
<b>Cash and cash equivalents at year end</b>	<b>47 287 612</b>	<b>(9 364 184)</b>	<b>37 923 428</b>	<b>-</b>		<b>58 838 620</b>	<b>57 464 870</b>		<b>1 373 750</b>	<b>98 %</b>	<b>122 %</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## 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. They are presented in South African Rand.

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, which is the functional currency of the municipality.

#### 1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months. The basis presume that the funds will be available to finance future operations and that realisation of.

#### 1.3 Investment property

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

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

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

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

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

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

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

#### Fair value

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

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

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

#### 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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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

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

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

Property, plant and equipment 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.

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

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

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

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

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

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

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

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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

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

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

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

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

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

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

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

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

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Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	30 years
Plant and machinery	Straight line	5 years
Furniture and fixtures	Straight line	7 years
Motor vehicles	Straight line	5 years
Office equipment	Straight line	5 years
IT equipment	Straight line	5 years
Computer software	Straight line	5 years
Infrastructure	Straight line	7-80 years
Community	Straight line	5-80 Years
Other property, plant and equipment	Straight line	5-10 Years
Heritage	Straight line	Infinite

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

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

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 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.

### 1.6 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.6 Intangible assets (continued)

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

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

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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 a 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.

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.

#### 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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.7 Heritage assets (continued)

#### Initial measurement

Heritage assets are measured at cost.

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

#### Subsequent measurement

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

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

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

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

#### 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 included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

### 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 decision of the investee, but is not control over those policies. The municipality exercise judgment 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 of 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 in associate initially at cost, then adjusting for any changes in the investors share of net assets since acquisition. A single line item in the Statements of Financial Performance presents the investors share of the associates surplus or deficit for the year.

The municipality uses the most recent available financial statements of the associates in applying the equity method. Where the reporting period 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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 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.

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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.9 Financial instruments (continued)

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

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

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

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

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

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

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

#### Initial recognition

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

The entity recognises financial assets using trade date accounting.

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.9 Financial instruments (continued)

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

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

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

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

Financial assets measured at amortised cost:

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.9 Financial instruments (continued)

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.

### Derecognition

#### Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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

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

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

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

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

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues 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

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# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.9 Financial instruments (continued)

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).

#### 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.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

### 1.10 Cash and Cash Equivalent

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of twelve months or less and are subject to an insignificant risk of change in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The Municipality categorises cash and cash equivalents as Financial assets. The closing balance on the bank account is representative of its fair value of the monies held.

### 1.11 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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.11 Leases (continued)

#### Finance leases - lessee

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

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

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

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

#### Operating leases - lessor

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

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

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

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

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

#### Operating leases - lessee

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

### 1.12 Inventories

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

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

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

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

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

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

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

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.12 Inventories (continued)

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.

### 1.13 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

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 used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

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

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

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

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

Useful life is either:

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

### Value in use

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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

#### Reversal of impairment loss

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

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

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

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

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

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

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

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

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

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

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

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

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

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

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

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

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

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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

Useful life is either:

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

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

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.

#### 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 Employee benefits

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

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

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

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

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

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

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

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.15 Employee benefits (continued)

#### 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 measures 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.

#### 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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.15 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 measures 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 determines 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 2018

## Accounting Policies

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### 1.15 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 2018

## Accounting Policies

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### 1.15 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

#### 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 2018

## Accounting Policies

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### 1.15 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.

### 1.16 Conditional Grants and receipts

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

### 1.17 Budget Information

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

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

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

The approved budget covers the fiscal period from 7/1/2017 to 6/30/2018.

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

### 1.18 Cash and Cash Equivalent

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of twelve months or less and are subject to an insignificant risk of change in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The Municipality categorises cash and cash equivalents as Financial assets. The closing balance on the bank account is representative of its fair value of the monies held.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.19 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 surplus (deficit).

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

A constructive obligation to restructure arises only when an entity:

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

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

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

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

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

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.19 Provisions and contingencies (continued)

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, a municipality recognises the obligation at the higher of:

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

### Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.19 Provisions and contingencies (continued)

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.

### 1.20 Revenue from exchange transactions

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

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

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

#### Measurement

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

#### Sale of goods

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

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

#### Rendering of services

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

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

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

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

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

### 1.21 Revenue from non-exchange transactions

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

### Recognition

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

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

### Measurement

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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

#### 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.

### 1.22 Investment income

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

### 1.23 Self Insurance fund

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.

### 1.24 Comparative figures

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

### 1.25 Unauthorised expenditure

Unauthorised expenditure means:

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

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

### 1.26 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.

### 1.27 Irregular expenditure

Irregular expenditure is defined in section 1 of the MFMA as follows:

“irregular expenditure”, in relation to a municipality or municipal entity, means—

- (a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;
- (b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
- (c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
- (d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality’s by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of “unauthorised expenditure”.

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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.27 Irregular expenditure (continued)

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.

### 1.28 Capital Commitment

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

Capital commitments are approved but not yet contracted for are those capital projects that 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.

### 1.29 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.

### 1.30 Related parties

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

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

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

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

### 1.31 Events after reporting date

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

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.31 Events after reporting date (continued)

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

### 1.32 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, material and overhead, if appropriate.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

2018

2017

### 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 2018 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34 Separate Financial Statements	01 April 2019	Unlikely there will be a material impact
• GRAP 35 Consolidated Financial Statements	01 April 2019	Unlikely there will be a material impact
• GRAP 36 Investment In Associates	01 April 2019	Unlikely there will be a material impact
• GRAP 37 Joint Arrangements	01 April 2019	Unlikely there will be a material impact
• GRAP 38 Disclosure of Interest in Other Entities	01 April 2019	Unlikely there will be a material impact
• GRAP 108 Statutory Receivables	01 April 2019	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2019	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2019	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Unlikely there will be a material impact

### 3. Investment property

	2018			2017		
	Fair Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Fair Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	379 606 000	-	379 606 000	365 022 000	-	365 022 000

#### Reconciliation of investment property - 2018

	Opening balance	Fair value adjustments	Total
Investment property	365 022 000	14 584 000	379 606 000

#### Reconciliation of investment property - 2017

	Opening balance	Other changes, movements	Fair value adjustments	Total
Investment property	275 974 000	(250 000)	89 298 000	365 022 000

There were no additions nor disposal of Investment Properties in the 2017/18 financial year.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>3. Investment property (continued)</b>		
<b>Details of valuation</b>		
The effective date of the revaluations was 30 June 2018. Revaluations were performed by an independent valuer, Abubaker Rahim, of Evaluations Property Intelligence.		
The valuation was based on open market value for existing use.		
The value for municipal properties is, totaling R 379,856,000 (2017: R 365,272,000).		
Investment property values were adjusted by the fair value adjustment of R14 584 000 which was recognised in the surplus and deficit for the current year.		
Amounts recognised in surplus and deficit for the year.		
Fair value adjustment	14 584 000	89 298 000
Rental Revenue recognised in the surplus and deficit for the year.	(2 712 288)	(2 435 330)

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 4. Property, plant and equipment

#### Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Work in Progress	Revaluations	Other changes, movements	Depreciation	Impairment loss	Total
Land	49 586 371	-	-	75 106	441 000	(1 852 829)	-	48 249 648
Buildings	400 470 548	-	-	-	11 235 366	(13 838 733)	-	397 867 181
Infrastructure	6 345 731 066	-	167 935 672	-	(11 404 928)	(406 201 123)	-	6 096 060 687
Community	138 732 047	-	10 759 322	-	(345 899)	(3 839 433)	-	145 306 037
Finance lease assets	277 097	36 495	-	-	-	(270 817)	-	42 775
Other property, plant and equipment	109 657 499	2 179 306	330 718	-	(38 153 276)	(20 747 914)	(71 570)	53 194 763
	<b>7 044 454 628</b>	<b>2 215 801</b>	<b>179 025 712</b>	<b>75 106</b>	<b>(38 227 737)</b>	<b>(446 750 849)</b>	<b>(71 570)</b>	<b>6 740 721 091</b>

#### Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Work in Progress	Transfers	Revaluations	Other changes, movements	Depreciation	Total
Land	48 096 501	-	-	218 000	1 562 349	-	(290 479)	49 586 371
Buildings	44 664 740	-	-	369 626 289	-	(34 736)	(13 785 745)	400 470 548
Infrastructure	6 613 034 850	-	36 025 390	137 818 780	-	(13 782 258)	(427 365 696)	6 345 731 066
Community	133 118 733	101 100	6 419 990	1 490 257	-	1 189 121	(3 587 154)	138 732 047
Finance lease assets	91 160	467 136	-	-	-	(15 148)	(266 051)	277 097
Other property, plant and equipment	514 823 866	1 365 997	(405 527 016)	23 437 893	-	-	(24 443 241)	109 657 499
	<b>7 353 829 850</b>	<b>1 934 233</b>	<b>(363 081 636)</b>	<b>532 591 219</b>	<b>1 562 349</b>	<b>(12 643 021)</b>	<b>(469 738 366)</b>	<b>7 044 454 628</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

2018

2017

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

#### Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	253 303 589	39 356 071	39 115 679	331 775 339
Prior year error	(44 528 722)	-	-	(44 528 722)
Transfer to Heritage Assets	-	(477 408)	477 408	-
Transfer to Buildings	(2 921 039)	-	2 921 039	-
Additions	165 093 800	10 759 322	330 718	176 183 840
Other Movements	(8 813 531)	109 100	-	(8 704 431)
Transfer to completed assets	(117 705 782)	(7 258 003)	(42 844 844)	(167 808 629)
	<b>244 428 315</b>	<b>42 489 082</b>	<b>-</b>	<b>286 917 397</b>

Items Making up - Other	Building	Land	Heritage	Exclusions	Other	Total
Opening Balance	8 014 087	441 000	-	30 046 420	614 172	39 115 679
Additions	300 240	-	-	-	30 477	330 718
Transfer In	2 921 039	-	477 408	-	-	3 398 446
Transferred to completed Assets	(11 235 366)	(441 000)	(477 408)	(30 046 420)	(644 649)	(42 844 843)
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

#### Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	217 791 061	32 936 080	444 642 695	695 369 836
Additions/capital expenditure	194 770 922	7 932 162	14 804 368	217 507 452
Other movements [specify]	(22 261 589)	(145 411)	(24 359 227)	(46 766 227)
Transferred to completed items	(136 996 805)	(1 366 761)	(395 972 157)	(534 335 723)
	<b>253 303 589</b>	<b>39 356 070</b>	<b>39 115 679</b>	<b>331 775 338</b>

#### Expenditure incurred to repair and maintain property, plant and equipment

#### Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Building Maintenance	9 676 804	8 412 696
Infrastructure Maintenance	84 128 884	74 935 233
Land Maintenance	1 332 410	1 053 723
Other Maintenance	13 862 368	6 512 139
	<b>109 000 466</b>	<b>90 913 791</b>

### 5. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	15 289 546	(9 704 282)	5 585 264	15 709 437	(7 022 898)	8 686 539

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

2018

2017

### 5. Intangible assets (continued)

#### Reconciliation of intangible assets - 2018

	Opening balance	Additions	Other changes, movements	Amortisation	Impairment loss	Total
Computer software	8 686 539	4 879	(18 219)	(2 910 866)	(177 069)	5 585 264

#### Reconciliation of intangible assets - 2017

	Opening balance	Additions	Transfers	Amortisation	Total
Computer software	11 153 997	26 590	472 599	(2 966 647)	8 686 539

### 6. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Museums, painting and artifacts	7 468 510	-	7 468 510	6 991 102	-	6 991 102

#### Reconciliation of heritage assets 2018

	Opening balance	Transfers	Total
Museums, painting and artifacts	6 991 102	477 408	7 468 510

#### Reconciliation of heritage assets 2017

	Opening balance	Additions	Transfers	Total
Museums, painting and artifacts	6 326 820	4 850	659 432	6 991 102

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand		2018	2017
<b>7. Investments in associates</b>			
<b>Name of entity</b>	<b>Listed / Unlisted</b>	<b>% holding 2018</b>	<b>% holding 2017</b>
Uthukela Water		34,00 %	34,00 %
		<b>Carrying amount 2018</b>	<b>Carrying amount 2017</b>
		275 279 106	301 163 242
The carrying amounts of associates are shown net of impairment losses.			
<b>8. Other financial assets</b>			
<b>At amortised cost</b>			
Stand debtors		3 621	5 791
<b>9. Inventories</b>			
Water stock		359 043	309 780
Consumable stores		12 498 501	15 302 205
		12 857 544	15 611 985
Provision for impairment of inventory		(395 394)	(388 457)
		<b>12 462 150</b>	<b>15 223 528</b>
Inventory Losses for 2017/18 amounts to <b>R28 545.19</b> ,			
Damages	R8 119.27		
Shortages	R20 425.92		
Inventories recognised as an expense during the year	R29 950 832		
<b>10. Receivables from exchange transactions</b>			
Deposits (Eskom and Nedbank Building)		3 236 990	2 902 309
Sundry debtors		1 598 652	919 280
Other receivables		59 755 971	36 466 084
		<b>64 591 613</b>	<b>40 287 673</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>11. Receivables from non-exchange transactions</b>		
Fines (Gross balance)	43 305 673	38 046 650
Less: Provision for impairment	(30 018 453)	(25 930 383)
	<b>13 287 220</b>	<b>12 116 267</b>
<b>Reconsiliation of Fines</b>		
Opening balance	38 046 650	36 143 121
Add: Fines recognised	6 649 903	3 578 370
Less: Fines received	(1 390 880)	(1 674 841)
	<b>43 305 673</b>	<b>38 046 650</b>
<b>Reconsiliation for Provision of Impairment</b>		
Opening balance	25 930 389	25 003 355
Add: Contribution to provision for impairment	4 088 070	927 035
	<b>30 018 459</b>	<b>25 930 390</b>
<b>Receivables from non-exchange transactions impaired</b>		
Opening balance	25 930 389	25 003 354
Add: Contribution for Impairment	4 088 070	927 035
<b>Fines Revenue recognised in surplus comprises of:</b>		
Traffic fines	6 649 903	3 578 481
Other fines	30 159	27 455

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>12. Consumer debtors</b>		
<b>Gross balances</b>		
Rates	215 657 775	179 361 056
Electricity	160 310 229	119 440 748
Water	324 217 438	263 239 018
Sewerage	233 156 580	191 774 497
Refuse	106 473 412	86 246 563
Other	64 751 338	57 157 361
VAT and sundry services	222 886 152	213 470 306
	<b>1 327 452 924</b>	<b>1 110 689 549</b>
<b>Less: Allowance for impairment</b>		
Rates	(131 399 279)	(103 157 686)
Electricity	(13 563 084)	(8 602 458)
Water	(221 778 977)	(177 057 641)
Sewerage	(178 259 185)	(143 313 052)
Refuse	(76 323 070)	(63 912 098)
Other	(43 701 219)	(42 389 237)
VAT and sundry services	(178 737 899)	(127 402 310)
	<b>(843 762 713)</b>	<b>(665 834 482)</b>
<b>Net balance</b>		
Rates	84 258 496	76 203 369
Electricity	146 747 144	110 838 290
Water	102 438 461	86 181 377
Sewerage	54 897 394	48 461 446
Refuse	30 150 342	22 334 465
Other	21 050 121	14 768 125
VAT and sundry services	44 148 253	86 067 997
	<b>483 690 211</b>	<b>444 855 069</b>
<b>Included in above is receivables from exchange transactions</b>		
Electricity	160 310 229	119 440 748
Water	324 217 438	263 239 018
Sewerage	233 156 580	191 774 497
Refuse	106 473 412	86 246 563
Other	64 751 338	57 157 361
VAT and sundry services	222 886 152	213 470 306
	<b>1 111 795 149</b>	<b>931 328 493</b>
<b>Included in above is receivables from non-exchange transactions (taxes and transfers)</b>		
Rates	215 657 775	179 361 056
<b>Total</b>	<b>1 327 452 924</b>	<b>1 110 689 549</b>
<b>Rates</b>		
Current (0 -30 days)	24 426 648	24 881 019
31 - 60 days	6 447 508	5 043 718
61 - 90 days	5 768 311	4 932 140
91 - 120 days	5 060 071	4 633 373
121 - 365 days	4 755 346	5 269 751
> 365 days	169 199 891	138 189 267
	<b>215 657 775</b>	<b>182 949 268</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>12. Consumer debtors (continued)</b>		
<b>Electricity</b>		
Current (0 -30 days)	73 067 086	104 160 410
31 - 60 days	852 401	762 361
61 - 90 days	653 793	631 370
91 - 120 days	506 539	558 596
121 - 365 days	378 265	485 501
> 365 days	84 852 145	12 985 274
	<b>160 310 229</b>	<b>119 583 512</b>
<b>Water</b>		
Current (0 -30 days)	21 395 903	31 216 703
31 - 60 days	9 128 760	7 161 260
61 - 90 days	8 697 217	6 126 944
91 - 120 days	8 298 783	6 064 107
121 - 365 days	7 813 874	6 315 072
> 365 days	268 882 901	206 867 962
	<b>324 217 438</b>	<b>263 752 048</b>
<b>Sewerage</b>		
Current (0 -30 days)	14 387 186	10 439 202
31 - 60 days	5 396 722	4 242 583
61 - 90 days	4 890 347	4 258 808
91 - 120 days	4 487 301	3 979 708
121 - 365 days	4 366 589	3 960 908
> 365 days	199 628 415	164 922 784
	<b>233 156 560</b>	<b>191 803 993</b>
<b>Refuse</b>		
Current (0 -30 days)	9 962 354	5 592 409
31 - 60 days	3 449 409	1 976 482
61 - 90 days	3 031 609	1 834 413
91 - 120 days	2 282 395	1 778 170
121 - 365 days	2 186 052	1 760 805
> 365 days	85 561 593	73 348 850
	<b>106 473 412</b>	<b>86 291 129</b>
<b>VAT and Sundries</b>		
Current (0 -30 days)	8 729 355	9 929 244
31 - 60 days	3 134 070	2 517 040
61 - 90 days	3 014 070	2 144 678
91 - 120 days	2 820 126	2 016 279
121 - 365 days	3 631 927	1 902 742
> 365 days	201 556 604	195 033 931
	<b>222 886 152</b>	<b>213 543 914</b>
<b>Other (specify)</b>		
Current (0 -30 days)	1 614 870	4 868 664
31 - 60 days	1 299 940	1 626 329
61 - 90 days	1 430 469	1 130 233
91 - 120 days	1 457 057	1 049 936
121 - 365 days	1 186 336	1 014 509
> 365 days	57 762 666	47 467 689
	<b>64 751 338</b>	<b>57 157 360</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>12. Consumer debtors (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	158 618 572	159 068 003
31 - 60 days	26 726 514	19 771 685
61 - 90 days	24 607 493	18 242 338
91 - 120 days	22 147 115	17 420 913
121 - 365 days	20 565 304	17 569 143
> 365 days	907 547 666	725 290 540
	<u>1 160 212 664</u>	<u>957 362 622</u>
Less: Allowance for impairment	(789 950 498)	(614 950 856)
	<b><u>370 262 166</u></b>	<b><u>342 411 766</u></b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	56 707 944	47 355 956
31 - 60 days	2 234 877	2 206 806
61 - 90 days	2 166 983	1 842 568
91 - 120 days	1 987 982	1 890 021
121 - 365 days	1 934 196	1 666 461
> 365 days	59 528 716	58 090 606
	<u>124 560 698</u>	<u>113 052 418</u>
Less: Allowance for impairment	(53 812 217)	(50 883 624)
	<b><u>70 748 481</u></b>	<b><u>62 168 794</u></b>
<b>National and provincial government</b>		
Current (0 -30 days)	(14 638)	5 356 164
31 - 60 days	747 420	1 351 282
61 - 90 days	711 294	973 680
91 - 120 days	777 176	769 235
121 - 365 days	1 818 888	1 473 684
> 365 days	38 639 423	38 121 921
	<u>42 679 563</u>	<u>48 045 966</u>
<b>Total</b>		
Current (0 -30 days)	215 311 878	211 780 122
31 - 60 days	29 708 811	23 329 773
61 - 90 days	27 485 770	21 058 586
91 - 120 days	24 912 273	20 080 169
121 - 365 days	24 318 388	20 709 287
> 365 days	1 005 715 805	813 731 611
	<u>1 327 452 925</u>	<u>1 110 689 548</u>
Less: Allowance for impairment	(843 762 714)	(665 834 479)
	<b><u>483 690 211</u></b>	<b><u>444 855 069</u></b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(665 834 480)	(596 316 891)
Contributions to allowance	(177 928 234)	(69 517 589)
	<u>(843 762 714)</u>	<u>(665 834 480)</u>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018			2017		
<b>13. Cash and cash equivalents</b>						
Cash and cash equivalents consist of:						
Cash on hand				445 432		989 523
Bank balances				9 612 485		19 732 952
Short-term Investments				47 406 953		29 785 283
				<b>57 464 870</b>		<b>50 507 758</b>
<b>The municipality had the following bank accounts</b>						
<b>Account number / description</b>	<b>Bank statement balances</b>			<b>Cash book balances</b>		
	<b>30 June 2018</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>30 June 2018</b>	<b>30 June 2017</b>	<b>30 June 2016</b>
FNB - 53140035974	3 549 379	13 082 957	4 338 099	9 612 485	19 732 952	6 539 737
FNB - 53140063149	6 063 106	6 649 995	2 201 638	-	-	-
<b>Total</b>	<b>9 612 485</b>	<b>19 732 952</b>	<b>6 539 737</b>	<b>9 612 485</b>	<b>19 732 952</b>	<b>6 539 737</b>
<b>Call Investments</b>						
Standard Bank - 68450354/015				964 057		903 090
Standard Bank - 68450354/016				21 631 574		15 409 490
Standard Bank - 68450354/035				77 670		5 726 142
Standard Bank - 68450354/036				44 677		972 374
Standard Bank - 68450354/037				18 599 892		-
Standard Bank - 68450354/038				1 076 294		-
Standard Bank - 68450354/039				1 773 159		-
ABSA - 9288456248				2 866 231		6 366 719
ABSA - 9300506428				373 397		312 151
Glacier/Sanlam - 002246107				-		95 316
				<b>47 406 951</b>		<b>29 785 282</b>
<b>Interest Income</b>						
Interest on primary account				1 868 016		1 812 746
Interest on investments accounts				2 955 672		2 689 863
				<b>4 823 688</b>		<b>4 502 609</b>
<b>14. Finance lease obligation</b>						
<b>Minimum lease payments due</b>						
- within one year				233 511		168 853
- in second to fifth year inclusive				24 309		234 909
<b>Present value of minimum lease payments</b>				<b>257 820</b>		<b>403 762</b>
<b>Present value of minimum lease payments due</b>						
- within one year				233 511		168 853
- in second to fifth year inclusive				24 309		234 909
				<b>257 820</b>		<b>403 762</b>
Non-current liabilities				24 309		234 909
Current liabilities				233 511		168 853
				<b>257 820</b>		<b>403 762</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>15. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
Sport and Recreation	8 761	-
Ingogo Fresh Produce	11 353	11 353
Grant Skills Development	3 070 800	3 683 700
Cleanest town	823 975	823 975
Environmental Management Framework	502 871	1 352 871
Neighbourhood Development Partnership	12 118 797	709 291
Electrification Grant	-	650 918
Water Services Operating & Masification Subsidies	11 000 000	-
Osizweni Art Centre	36 920	36 920
Housing Osizweni Sec E	4 266 813	4 266 813
Newcastle Airport	1 815 281	272 568
Capacity Building housing	8 414 666	6 693 870
Fort Amiel Museum	192 868	300 026
Corridor Development	131 075	131 075
Carnegie Art Gallery	279 871	169 703
Provincialisation - Libraries	13 642 765	22 452 928
	<b>56 316 816</b>	<b>41 556 011</b>
<b>16. Financial liabilities</b>		
<b>At amortised cost</b>		
DBSA loans	168 106 644	190 373 404
ABSA Bank loans	263 947 965	288 844 611
	<b>432 054 609</b>	<b>479 218 015</b>
	<b>432 054 609</b>	<b>479 218 015</b>
<b>Non-current liabilities</b>		
At amortised cost	402 570 627	447 215 530
<b>Current liabilities</b>		
At amortised cost	29 483 981	32 002 485

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017				
<b>17. Defined Benefit Plan</b>						
<b>Reconciliation of defined benefit plan - 2018</b>						
	<b>Opening Balance</b>	<b>Current Service Cost</b>	<b>Benefits Paid</b>	<b>Actuarial Loss/(Gain)</b>	<b>Interest Cost</b>	<b>Total</b>
Employee benefits	134 384 562	6 876 879	(6 215 831)	5 793 705	12 365 500	153 204 815
<b>Reconciliation of defined benefit plan - 2017</b>						
	<b>Opening Balance</b>	<b>Current Service Cost</b>	<b>Benefits Paid</b>	<b>Actuarial Loss/(Gain)</b>	<b>Interest Cost</b>	<b>Total</b>
Employee benefits	125 850 731	6 844 303	(5 775 189)	(3 559 453)	11 024 170	134 384 562
Non-current liabilities					145 207 202	128 168 731
Current liabilities					7 997 613	6 215 831
					<b>153 204 815</b>	<b>134 384 562</b>
<b>Health Care Benefit</b>						
Balance at the beginning of the year					111 427 422	104 882 523
Current service cost					4 644 695	4 685 360
Benefits paid					(4 073 667)	(3 364 428)
Actuarial loss/(gain)					3 562 018	(4 103 683)
Interest					10 509 423	9 327 650
					<b>126 069 891</b>	<b>111 427 422</b>
<b>Net expense recognised in Statement of Financial Performance</b>						
Current service cost					4 644 695	4 685 360
Benefits paid					(4 073 667)	(3 364 428)
Actuarial loss/(gain)					3 562 018	(4 103 683)
Interest					10 509 423	9 327 650
					<b>14 642 469</b>	<b>6 544 899</b>
<b>Long Service Bonus Award</b>						
Balance at the beginning of the year					22 957 138	20 968 206
Current service cost					2 232 184	2 158 943
Benefits paid					(2 142 164)	(2 410 761)
Actuarial loss/(gain)					2 231 687	544 230
Interest					1 856 077	1 696 520
					<b>27 134 922</b>	<b>22 957 138</b>
<b>Net expense recognised in Statement of Financial Performance</b>						
Current service costs					2 232 184	2 158 943
Benefits paid					(2 142 164)	(2 410 761)
Actuarial loss/(gain)					2 231 687	544 230
Interest					1 856 077	1 696 520
					<b>4 177 784</b>	<b>1 988 932</b>

Employee benefit cost provision: Assumption

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

2018

2017

### 17. Defined Benefit Plan (continued)

#### Health Care Benefits

The municipality provides certain post retirements 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 of the present value of the unfunded defined obligation was carried out as at 30 June 2018 by One Pangaea Financials, 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	9.60%
Health care cost inflation rate	7.90%
Net effective discount rate	1.58%
Unfunded Accrued Liability	R126 069 891

#### Current-service and Interest Costs

Year ended 30 June 2018	R4 644 695
Interest Cost	R10 509 423
Actuarial (Gain)/Loss Recognized in Surplus/Deficit	R3 562 018

#### Long service Bonus Awards

The long service bonus award is a function of accumulated leave days that is converted into cash in the year the employee attains the service eligible for an award at a rate of 1/251 of annual salary per day.

#### Key financial assumptions used

Discount rate	8.92%
General Salary Inflation	6.44%
Net effective discount rate	2.33%

The salaries used in the valuation include an assumed increase on 1 July 2018 of 7% as per the 2018/19 Newcastle Municipality approved budget. .

#### Key Demographic Assumptions used

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	18%	12%
	40	10%	8%
	50	4%	4%
	55+	2%	2%

#### Unfunded Accrued Liability

Total value of liabilities	R27 134 922
Value of Assets	R0
Unfunded Accrued Liabilities	R27 134 922

#### Current service and Interest Costs

Current Cost	R2 232 184
Interest Cost	R1 856 077

#### Comparative of Vital Statistics

Number of eligible employees	1352
Average annual salary	R222 285
Salary-weighted average age	43.9
Salary-weighted average past service	11.5

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>18. Provision for Rehabilitation of Landfil site</b>		
<b>The movement in thr provision is reconciled as follows;</b>		
Balance at the beginning of year	31 217 650	26 814 753
Decrease/increase in provision	75 105	1 562 349
Finance charges recognised	-	2 840 548
	<b>31 292 755</b>	<b>31 217 650</b>
<b>19. Payables from exchange transactions</b>		
Trade payables	387 420 111	237 355 100
Retentions	38 193 658	36 507 137
Output VAT on levies	129 244 073	93 411 760
Stale cheques written back	743 585	782 697
Leave pay provision	32 756 691	35 456 138
Bonus provision	14 079 781	9 057 778
Other payables	43 224 471	38 952 335
	<b>645 662 370</b>	<b>451 522 945</b>
<b>20. VAT payable</b>		
Tax refunds payables	1 775 605	2 390 525
<b>21. Consumer deposits</b>		
Consumers - Electricity	18 595 636	14 038 053
Hall Deposits	321 670	246 538
Housing Deposits	49 218	49 648
	<b>18 966 524</b>	<b>14 334 239</b>
<b>22. Revenue</b>		
Service charges	959 936 419	944 304 232
Rental of facilities and equipment	7 814 644	7 278 218
Other income	5 300 637	7 774 422
Sundry sales	931 633	1 303 488
Fee income	11 118 686	7 696 457
Interest received	15 420 561	14 835 339
Property rates	253 485 719	232 285 813
Government grants & subsidies	556 662 414	527 822 316
Fines, Penalties and Forfeits	6 680 062	3 605 936
Gain on Acturial valuations	-	3 559 453
	<b>1 817 350 775</b>	<b>1 750 465 674</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	959 936 419	944 304 232
Rental of facilities and equipment	7 814 644	7 278 218
Other income	5 300 637	7 774 422
Sundry sales	931 633	1 303 488
Fee income	11 118 686	7 696 457
Interest received - investment	15 420 561	14 835 339
	<b>1 000 522 580</b>	<b>983 192 156</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>22. Revenue (continued)</b>		
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Property rates	253 485 719	232 285 813
<b>Transfer revenue</b>		
Government grants & subsidies	556 662 414	527 822 316
Fines, Penalties and Forfeits	6 680 062	3 605 936
Gain on Actuarial Valuations	-	3 559 453
	<b>816 828 195</b>	<b>767 273 518</b>
<b>23. Service charges</b>		
Sale of electricity	648 222 815	671 545 629
Sale of water	155 959 289	135 672 059
Sewerage and sanitation charges	90 585 910	80 250 874
Refuse removal	65 168 405	56 835 670
	<b>959 936 419</b>	<b>944 304 232</b>
<b>24. Rental of facilities and equipment</b>		
<b>Premises</b>		
Municipal housing	6 771 996	6 207 360
Venue hire	925 678	887 000
Rental - HDF	116 970	183 858
	<b>7 814 644</b>	<b>7 278 218</b>
<b>25. Other revenue</b>		
Other Income	5 300 637	7 774 422
Sundry Revenue	931 633	1 303 488
Financial instruments - Fee income	11 118 686	7 696 457
	<b>17 350 956</b>	<b>16 774 367</b>
<b>26. Interest received</b>		
<b>Interest revenue</b>		
Bank	4 823 688	4 502 609
Arrear consumer accounts	10 594 239	10 329 850
Other Interest	2 634	2 880
	<b>15 420 561</b>	<b>14 835 339</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>27. Property rates</b>		
<b>Rates received</b>		
Residential	136 465 813	127 683 676
Commercial	117 759 899	110 594 211
State	5 336 507	2 614 459
Specialised Non-market	533 280	3 103 777
Vacant land	15 655 740	16 512 960
Agriculture	4 187 246	3 035 583
Less: Income forgone	(26 452 767)	(31 258 853)
	<b>253 485 718</b>	<b>232 285 813</b>
<b>Valuations</b>		
Residential	13 085 895 000	13 234 336 000
Commercial	5 576 274 000	4 202 753 000
State	979 021 000	2 113 204 000
Vacant	313 705 500	490 221 200
Specialised non-market	325 020 900	1 494 199 900
Agriculture	2 488 811 000	1 298 592 804
Unratable properties	278 610 000	627 139 900
	<b>23 047 337 400</b>	<b>23 460 446 804</b>

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>28. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	318 176 000	306 952 000
Newcastle library internet project	188 000	195 818
Finance management grant	1 700 000	1 625 000
Skills development grant	612 900	105 300
Expanded Public Works programme incentive	4 166 000	3 173 000
Neighbourhood development partnership	22 648 494	27 613 709
Electrification grant	9 650 918	7 349 082
Corridor development	-	16 910 506
Municipal infrastructure grant	114 604 000	109 214 000
Ingogo Fresh Produce	-	1 091 564
IT Tirelo Bosha Project	850 000	-
Madadeni library internet project	188 000	202 811
Municipal Water Infrastructure Grant	45 000 000	40 613 000
Osizweni library internet project	188 000	204 288
Provincialisation- All Libraries	14 733 163	5 964 820
Capacity building Housing	5 195 944	5 991 100
Carnegie Art Gallery	89 832	522 680
Fort Amiel Museum	257 158	-
Newcastle Airport	17 533 271	93 640
Sport and recreation	880 739	-
	<b>556 662 419</b>	<b>527 822 318</b>
<b>Conditional and Unconditional</b>		
Included in above are the following grants and subsidies received:		
Unconditional grants received	318 176 000	306 952 000
Conditional grants received	238 486 418	220 870 318
	<b>556 662 418</b>	<b>527 822 318</b>
<b>Equitable Share</b>		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
<b>Reconsiliation of Equitable share</b>		
Equitable share received	318 176 000	306 952 000
<b>Municipal Infrastructure Grant</b>		
Current-year receipts	114 604 000	109 214 000
Conditions met - transferred to revenue	(114 604 000)	(109 214 000)
	-	-
<b>Municipal Systems Improvement Grant</b>		
Balance unspent at beginning of year	-	677 387
Other	-	(677 387)
	-	-
<b>Financial Management Grant</b>		
Current-year receipts	1 700 000	1 625 000
Conditions met - transferred to revenue	(1 700 000)	(1 625 000)
	-	-

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>28. Government grants and subsidies (continued)</b>		
<b>Skills Development Grant</b>		
Balance unspent at beginning of year	3 683 701	3 789 614
Conditions met - transferred to revenue	(612 900)	(105 300)
Other	-	(613)
	<u>3 070 801</u>	<u>3 683 701</u>
<b>Expanded Works Programme Incentive</b>		
Current-year receipts	4 166 000	3 173 000
Conditions met - transferred to revenue	(4 166 000)	(3 173 000)
	<u>-</u>	<u>-</u>
<b>Environmental Management Framework</b>		
Balance unspent at beginning of year	<u>502 871</u>	<u>502 871</u>
<b>Neighbourhood Development Partnership</b>		
Balance unspent at beginning of year	709 291	-
Current-year receipts	34 767 000	28 323 000
Conditions met - transferred to revenue	(22 648 494)	(27 613 709)
Funds surrendered to National Treasury	(709 000)	-
	<u>12 118 797</u>	<u>709 291</u>
<b>Electrification Grant</b>		
Balance unspent at beginning of year	650 918	-
Current-year receipts	9 000 000	8 000 000
Conditions met - transferred to revenue	(9 650 918)	(7 349 082)
	<u>-</u>	<u>650 918</u>
<b>Water Services Operating &amp; Masification Subsidies</b>		
Current-year receipts	<u>11 000 000</u>	<u>-</u>
<b>I.T - Tirelo Bosha Project</b>		
Balance unspent at beginning of year	850 000	-
Current-year receipts	-	850 000
Conditions met - transferred to revenue	(850 000)	-
	<u>-</u>	<u>850 000</u>
<b>Madadeni library internet project</b>		
Balance unspent at beginning of year	-	23 811
Current-year receipts	188 000	179 000
Conditions met - transferred to revenue	(188 000)	(202 811)
	<u>-</u>	<u>-</u>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>28. Government grants and subsidies (continued)</b>		
<b>Municipal Water Infrastructure Grant</b>		
Current-year receipts	45 000 000	40 613 000
Conditions met - transferred to revenue	(45 000 000)	(40 613 000)
	<u>-</u>	<u>-</u>
<b>Osizweni Library internet project</b>		
Balance unspent at beginning of year	-	25 288
Current-year receipts	188 000	179 000
Conditions met - transferred to revenue	(188 000)	(204 288)
	<u>-</u>	<u>-</u>
<b>Provincialisation- All Libraries</b>		
Balance unspent at beginning of year	22 452 928	7 297 748
Current-year receipts	5 923 000	21 120 000
Conditions met - transferred to revenue	(14 733 163)	(5 964 820)
	<u><b>13 642 765</b></u>	<u><b>22 452 928</b></u>
<b>Capacity Building housing</b>		
Balance unspent at beginning of year	6 693 870	12 684 970
Current-year receipts	6 916 740	-
Conditions met - transferred to revenue	(5 195 944)	(5 991 100)
	<u><b>8 414 666</b></u>	<u><b>6 693 870</b></u>
<b>Osizweni arts centre</b>		
Balance unspent at beginning of year	36 920	36 920
	<u>36 920</u>	<u>36 920</u>
<b>Corridor development</b>		
Balance unspent at beginning of year	131 075	135 244
Current-year receipts	-	16 906 337
Conditions met - transferred to revenue	-	(16 910 506)
	<u><b>131 075</b></u>	<u><b>131 075</b></u>
<b>Cleanest town</b>		
Balance unspent at beginning of year	823 975	823 975
	<u>823 975</u>	<u>823 975</u>
<b>Newcastle Library Internet Project</b>		
Balance unspent at beginning of year	-	16 818
Current-year receipts	188 000	179 000
Conditions met - transferred to revenue	(188 000)	(195 818)
	<u>-</u>	<u>-</u>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>28. Government grants and subsidies (continued)</b>		
<b>Sport and Recreation</b>		
Current-year receipts	889 500	-
Conditions met - transferred to revenue	(880 739)	-
	<b>8 761</b>	<b>-</b>
<b>Ingogo Fresh Produce</b>		
Balance unspent at beginning of year	11 353	1 102 917
Conditions met - transferred to revenue	-	(1 091 564)
	<b>11 353</b>	<b>11 353</b>
<b>Carnegie Art Gallery</b>		
Balance unspent at beginning of year	169 703	647 633
Current-year receipts	200 000	44 750
Conditions met - transferred to revenue	(89 832)	(522 680)
	<b>279 871</b>	<b>169 703</b>
<b>Fort Amiel Museum</b>		
Balance unspent at beginning of year	300 026	10 776
Current-year receipts	150 000	289 250
Conditions met - transferred to revenue	(257 158)	-
	<b>192 868</b>	<b>300 026</b>
<b>Other grants (Housing grants)</b>		
Balance unspent at beginning of year	4 266 813	1 093 885
Other	-	3 172 928
	<b>4 266 813</b>	<b>4 266 813</b>
<b>Newcastle Airport</b>		
Balance unspent at beginning of year	272 567	366 207
Current-year receipts	19 075 985	-
Conditions met - transferred to revenue	(17 533 271)	(93 640)
	<b>1 815 281</b>	<b>272 567</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>29. Employee related costs</b>		
Basic	315 679 635	292 340 391
Medical aid - company contributions	18 750 743	17 644 241
UIF	2 509 361	2 529 882
WCA	4 347 732	5 980 951
SDL	4 321 591	4 046 125
Leave bonus paid	30 009 045	19 898 085
Defined contribution plans	67 548 299	52 286 382
Travel, motor car, accommodation, subsistence and other allowances	4 516 952	3 966 164
Overtime payments	53 816 678	48 301 248
Long-service awards	2 079 420	2 379 843
Transport allowance	23 706 939	21 947 465
Housing benefits and allowances	8 368 817	8 535 238
Group insurance	5 127 686	4 248 411
Bargaining council	142 903	133 976
Night work allowance	1 742 398	1 584 101
Leave pay provision	6 137 119	9 935 164
	<b>548 805 318</b>	<b>495 757 667</b>
<b>Remuneration of the Municipal Manager</b>		
Annual Remuneration	1 497 805	1 384 831
Car Allowance	126 933	132 284
Contributions to UIF, Medical and Pension Funds	261 054	223 032
	<b>1 885 792</b>	<b>1 740 147</b>
<b>Remuneration of the Chief Finance Officer</b>		
Annual Remuneration	450 731	-
Car Allowance	83 333	-
Contributions to UIF, Medical and Pension Funds	30 144	-
Other benefits	34 339	-
	<b>598 547</b>	<b>-</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>29. Employee related costs (continued)</b>		
<b>Remuneration of Executive Directors</b>		
Annual Remuneration	3 784 568	3 835 156
Car Allowance	334 253	475 875
Contributions to UIF, Medical and Pension Funds	387 448	162 682
Housing allowances	-	22 853
Other benefits	282 221	355 090
Leave paid and other benefits	253 070	106 222
	<b>5 041 560</b>	<b>4 957 878</b>
<b>Community Services</b>		
Annual Remuneration	-	764 021
Car Allowance	-	269 127
Contributions to UIF, Medical and Pension Funds	-	19 488
Leave paid	-	109 582
	-	<b>1 162 218</b>
<b>Development and Planning Services</b>		
Annual Remuneration	1 053 542	1 038 970
Car Allowance	140 219	96 564
Contributions to UIF, Medical and Pension Funds	42 240	82 313
	<b>1 236 001</b>	<b>1 217 847</b>
<b>Electricity Services</b>		
Annual Remuneration	119 877	1 038 763
Car Allowance	-	355 074
Contributions to UIF, Medical and Pension Funds	149	-
	<b>120 026</b>	<b>1 393 837</b>
<b>Internal Audit</b>		
Annual Remuneration	931 442	993 401
Car Allowance	115 169	87 736
Contributions to UIF, Medical and Pension Funds	154 585	102 839
	<b>1 201 196</b>	<b>1 183 976</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>30. Remuneration of councillors</b>		
Mayor	859 083	838 890
Deputy Mayor	707 466	676 796
Executive Committee Members	3 164 570	3 580 718
Speaker	707 377	668 449
Councillors	17 725 759	14 623 908
	<b>23 164 255</b>	<b>20 388 761</b>
<b>Mayor</b>		
Annual remuneration	631 520	576 937
Car allowances	186 763	208 348
Cellphone allowances	40 800	23 322
Contribution to UIF, medical aid and pension	-	26 864
Housing allowances	-	3 419
	<b>859 083</b>	<b>838 890</b>
<b>Deputy Mayor</b>		
Annual remuneration	439 103	409 298
Car allowances	162 527	175 220
Cellphone allowances	40 800	24 751
Contribution to UIF, medical aid and pension	65 035	64 107
Housing allowances	-	3 419
	<b>707 465</b>	<b>676 795</b>
<b>Speaker</b>		
Annual remuneration	439 014	412 385
Car allowances	162 527	162 368
Cellphone allowances	40 800	23 322
Contribution to UIF, medical aid and pension	65 035	66 956
Housing allowances	-	3 419
	<b>707 376</b>	<b>668 450</b>
<b>Chief Whip</b>		
Annual remuneration	270 184	225 271
Car allowances	103 571	86 354
Cellphone allowances	40 800	23 322
Contribution to UIF, medical aid and pension	44 136	36 658
	<b>458 691</b>	<b>371 605</b>
<b>31. Depreciation and amortisation</b>		
Property, plant and equipment	449 661 715	472 110 422
<b>32. Impairment of assets</b>		
<b>Impairments</b>		
Fines	4 088 070	1 348 277
Inventory	35 482	-
Intangible assets	248 639	-
	<b>4 372 191</b>	<b>1 348 277</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>33. Finance costs</b>		
Non-current borrowings	31 999 938	50 647 784
Provisions and current borrowings	12 543 058	14 051 002
Other interest paid	5 028 020	1 084 764
	<b>49 571 016</b>	<b>65 783 550</b>
<b>34. Debt impairment and Bad debts written off</b>		
Debt impairment	177 928 234	69 517 589
<b>Bad debts written off</b>		
Indigents written off	28 723 099	30 786 341
Bad debts written off - Incentives	2 289 241	-
	<b>31 012 340</b>	<b>30 786 341</b>
<b>35. Bulk purchases</b>		
Electricity	449 143 199	493 594 236
Water	91 798 314	65 351 503
	<b>540 941 513</b>	<b>558 945 739</b>
<b>36. Contracted services</b>		
Security services	25 907 783	21 075 726
Consultants fees	35 378 442	41 499 180
Other Contractors	29 288 205	6 673 188
	<b>90 574 430</b>	<b>69 248 094</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>37. General expenses</b>		
Advertising	1 324 574	947 236
Assessment rates & municipal charges	1 022 373	1 097 919
Auditors remuneration	3 734 763	3 881 050
Bank charges	3 863 454	3 416 814
Legal fees	2 209 156	2 063 509
Donations	2 345	-
Entertainment	401 767	272 533
Hire	30 889 043	27 100 814
Insurance	5 537 111	3 265 313
Community development and training	13 893 883	20 886 003
IT expenses	8 659 480	4 598 379
Magazines, books and periodicals	288 325	819 993
Medical expenses	6 790	20 779
Motor vehicle expenses	22 607 437	17 610 572
Subsistence and Travelling	2 649 308	1 096 956
Petrol, Oil and Grease	847 043	890 263
Postage and courier	3 201 402	2 619 415
Printing and stationery	3 212 479	3 415 936
Promotions	40 299	130 395
Protective clothing	4 387 277	4 539 030
Repairs and maintenance	106 158 594	90 913 790
Royalties and license fees	151 201	168 842
Compensation fund	-	40 040
Membership fees	5 572 972	5 576 981
Telephone and fax	15 074 631	9 146 593
Training	9 644 958	6 000 065
Refuse	4 457 784	4 588 791
Tools	178 937	175 423
Lease Rentals on Operating lease	3 081 352	4 431 876
Other expenses	15 025 931	30 867 501
Administration expenses	32 449 102	36 839 538
Contribution to post retirement benefits	6 876 879	6 844 303
Material	7 192 998	5 145 085
Loss on sale of assets	33 275	-
Signage	548 514	422 624
Chemicals	325 084	302 956
	<b>315 550 521</b>	<b>300 137 317</b>
<b>38. Auditors' remuneration</b>		
Fees	3 575 312	3 623 266
Audit Committee	159 451	257 784
	<b>3 734 763</b>	<b>3 881 050</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>39. Cash generated from operations</b>		
Deficit	(433 599 885)	(294 282 230)
<b>Adjustments for:</b>		
Depreciation and amortisation	449 661 715	472 110 422
Fair value adjustment and Share of deficit	(11 917 493)	(48 078 023)
Gain on Actuarial Valuation	-	(3 559 453)
Loss on Actuarial Valuations	5 793 705	-
Impairment of assets	4 372 191	1 348 277
Debt impairment	208 940 574	100 303 930
Movements in provisions	17 050 384	8 533 831
<b>Changes in working capital:</b>		
Inventories	2 761 378	(1 842 962)
Receivables from exchange transactions	(24 303 940)	(8 589 045)
Consumer debtors	(216 763 435)	(107 166 798)
Other receivables from non-exchange transactions	(1 170 953)	(976 605)
Other financial assets	2 170	2 131
Short term portion finance lease	64 658	-
Payables from exchange transactions	194 139 425	92 012 559
VAT	(614 920)	13 143 536
Unspent conditional grants and receipts	14 760 804	9 147 019
Consumer deposits	4 632 285	1 581 633
Provision for Rehabilitation of Landfill site	31 292 755	-
Short term portion of defined benefit	1 781 782	-
Landfill	(2 518 504)	-
	<b>244 364 696</b>	<b>233 688 222</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>40. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Infrastructure assets	69 171 924	81 491 523
• Community assets	2 066 321	540 000
• Land and buildings	-	14 952 398
• Other assets	-	3 112 633
	<b>71 238 245</b>	<b>100 096 554</b>
<b>Not yet contracted for and authorised by accounting officer</b>		
• Infrastructure assets	-	16 201 537
• Land and buildings	-	3 432 661
• Other assets	-	1 628 646
	-	<b>21 262 844</b>
<b>Total capital commitments</b>		
Already contracted for but not provided for	71 238 245	100 096 554
Not yet contracted for and authorised by accounting officer	-	21 262 844
	<b>71 238 245</b>	<b>121 359 398</b>
<b>Operating leases - as lessee (expense)</b>		
<b>Minimum lease payments due</b>		
- within one year	566 940	658 188
- in second to fifth year inclusive	578 017	157 744
	<b>1 144 957</b>	<b>815 932</b>

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

2018

2017

### 41. Contingencies

#### **Plaintiff: Evnic Data CC**

There is litigation process against the municipality relating to the dispute with Evnic Data CC, who is seeking damages of R23 million for the loss of profit. The estimated legal costs are R100 000. The allegations are that there was an irregular awarding of tender to another bidder due to unfair evaluation and awarding. Parties to convene pretrial.

#### **Plaintiff: Singatha Africa Joint Venture**

Singatha Africa Joint Venture is seeking damages of R815 475 for loss of profit relating to a dispute of breach of contract. They claim that they were engaged as a Project Manager for housing project but the contract was cancelled. Estimated legal costs are R150 000. Awaiting trial date.

#### **Plaintiff: ADZ Construction CC**

There is a litigation process against the municipality relating to a dispute with ADZ Construction CC, who is seeking damages of R 1 245 491 for breach of contract It alleges that the contract was unlawfully terminated. Estimated legal costs are R150 000. Litigation to proceed.

#### **Plaintiff: Pragashini Dhewlall**

There is a litigation process against the municipality relating to the dispute with Pragashini Dhewlall, who is claiming damages for medical expenses of R400 000. He sustained injury after tripping on a metal pipes placed by municipal employees.

#### **Plaintiff: Bigen Services Africa (Pty) LTD**

Bigen Services Africa (Pty) LTD is the former service provider in the Municipality. Bigen Services Africa (Pty) LTD had objected to the Municipality, this matter follows an unsuccessful bid application for debt management. The matter will be finalised once payment of R120 000 is paid to Bigen Services. The estimated legal costs are R250 000.

#### **Plaintiff: Matilda Plumbing & Projects CC**

There is a litigation process against the municipality relating to a dispute with Matilda Plumbing and Projects CC. The estimated claim amounts to R200 000 and the estimated legal cost are R60 000..

#### **Plaintiff: SJ Zulu**

There is a litigation process against the municipality relating to a dispute with SJ Zulu. SJ Zulu has lodged an application to cease excavation and construction of sewerage pumpstation project initiated by the municipality. The case is in the High court and the estimated cost is R20million and R75 000 of legal costs

#### **Plaintiff: Rusha/Dylan Peterson**

There is a litigation process against the municipality relating to a dispute with Rusha Peterson where has allegations that the municipality was negligent, leaving the storm water drainage pipes open in the public palce that was accessible to children. Her child was injured. The case now is in her sons name Dylan as he is now over 18.The claim for damages now is R2 800 000.

#### **Plaintiff: Chapps Construction**

There is a litigation against the municipality where as Chapps Construction has an arbitration against the municipaplite that relates to the chalages on additional work rended by Chapps without proper manadate on extension of Allen street project. Estimated legal fees of R150 000

#### **Plaintiff: Sibiya (Ingogo Fresh Produced)**

There is a litigation process against the municipality relating to a dispute with Mr Sibiya whereas there was an agreement between the municipality and Mr Sibiya to pay the rental of R1500 per month on the portion of land belonging to Mr Sibiya. Mr Sibiya now demands R30 000 instead of R1500. EXCO authorised that the matter be handled by COGTA.

#### **Plaintiff: HS Civils**

There is a litigation process against the municipality relating to a dispute with HS Civils for the transfer of ownership of Greenwich Farm. The estimated legal costs are R100 000.

#### **Plaintiff: BTE**

BTE issued summons against the municipality for breach of contract. Estimated legal costs are R19 000.

#### **Plaintiff: Sagewise 1018 cc & Kadbro Taxi City**

The NMPT previous set aside the restricve condition which was successful on internal appeal. The applicant did not participate in the internal appeal. The estimated costs are R300 000.

#### **Plaintiff: Mathunjwa and 5 others**

Mathunjwa and 5 others applied for a grant to compel the municipality to realease the rank permits. Estimated legal costs are R100 000.

#### **Plaintiff: VP Chetty/Amandla Construction**

There is a litigation process against the municipality relating to a dispute with Amandla Construction. Allegations of breach of Contract. Amount sued is R238 609 and estimated legal costs are R50 000.

#### **Plaintiff: Minister of Water Affairs**

The Minister of Water Affairs is suing the municipality for services of water renderedfor the periode April 2002 to 31 August 2016. An arrangement has been made to pay this in instalments of 3 years. Amount sued for is R35 906 412.22 and estimated legal costs are R50 000

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

2018

2017

### 41. Contingencies (continued)

#### Insurance Claim from Third Parties Public Liability

Sandile Mkhize for Motorvehicle claim. Sued amount R96 522.77 and estimated legal cost R25 000  
Typhoon Fibers for Property damage due to employee negligence. Sued amount is R438 266 and legal cost of R50 000  
Webster Nkosi for Motorvehicle claim. Sued amount R41 861.70 and estimated legal costs are R15 000.  
Alistair Kevin vn Wyk for Personal injuries. Sued amount R 6 000 000 and estimated legal costs R150 000  
Diaan and AJ Von Broembsen for property damage due to rain storm. Sued amount is R220 580 and estimated legal fees is R30 000  
Olivia Sizani Nzimande for Motorvehicle claim. Sued amount R109 550 and estimated legal costs R30 000  
Vusi Mahlangu for Vehicle damage claim. Sued amount R140 835 and legal costs R30 000  
Vishal Heeralal for Personal injuries claim. Sued amount R1 050 000 and estimated legal costs R150 000  
Nicole Adele Pillay for Motorvehicle damage claim. Sued amount is R101 327 and legal costs of R30 000  
Chemile Dlabehlezi Dladla for Personal injuries. Sued amount is R6 000 000 and legal costs of R250 000.  
SK Made/ Shories for personal injuries while attending Youth celebration. Sued amount R10 000 000.  
Vox Telecommunication sent a letter of demand. Sued amount is R121 685.  
Telkom SA Soc LTD claim on damaged to telecommunication lines. Amount sued for R165 423.88 and estimated legal costs are R20 000.  
Clover SA has sued the municipality for R39 100.30.

#### Cases of evictions

Leokop (Pty) LTD/ Sikhese Bethlehem Mthembu and Another - estimated legal costs R90 000  
P Rampersad - estimated legal costs R 50 000  
Occupiers in Charlestown - estimated legal costs R50 000.45  
Nomsa Communal Property - estimated legal costs are R450 000.

#### Labour reviews and Bargaining Council

Miss Nxumalo has sued the municipality for R89 625 and R150 000 legal cost. She alleged that she was unfairly dismissed. Labour court is reviewing the application.

Mr. Ngwenya is suing the municipality for an unfair labour practice. Labour court review is pending. Estimated legal costs are R150 000

Mr. Mofokeng has sued the municipality R110 000 for an unfair dismissal. Awaiting ruling on leave to appeal. Estimated legal costs are R50 000

PZ Sithole is suing the municipality for unfair suspension. The estimated cost that the municipality will have to pay is R196 102.09 which is the salary for 3 months.

NN Zwane is suing the municipality on unfair dismissal. Estimated financial costs for reinstatement is R 114 074.83 pa.

DS Mazibuko is suing the municipality for unfair labour practice. Estimated financial costs for reinstatement is R76 699.32 pa.

Ravesh Sign and 3 others, they have launched a grievance on non appointments on some posts. The estimated legal costs are R50 000.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>42. Related parties</b>		
<b>Relationships</b>		
Associates		Refer to note 7
<b>Related party balances</b>		
<b>Investment in Associates</b>		
Uthukela Water Pty LTD	(26 076 953)	(34 573 222)
<b>Bulk Water</b>		
Uthukela Water Pty LTD	78 804 850	64 224 044
<b>Related party transactions</b>		

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 42. Related parties (continued)

#### Remuneration of management

##### Councillors

2018

Name	Basic salary	Pension Contribution	Medical Aid Contribution	Motor Vehicle Allowance	Cellphone and Other Allowances	Housing Allowance	Total
Executive Committee members	3 700 012	360 345	68 328	1 433 465	712 072	293 040	6 567 262
Other Councillors	8 941 177	1 147 782	21 440	3 547 785	2 563 702	710 920	16 932 806
	<b>12 641 189</b>	<b>1 508 127</b>	<b>89 768</b>	<b>4 981 250</b>	<b>3 275 774</b>	<b>1 003 960</b>	<b>23 500 068</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

2018

2017

### 43. Prior period errors

#### Property, plant and equipment

##### 1. Unbundling of Stormwater Assets

The unbundling of stormwater assets required to review of useful lives per components, the impact is as follows.

**Accumulated Depreciation Stormwater** R33 411 067

##### 2. Capitalisation of prior year projects

This relate to Rural Electrification project in WIP transferred to operational expenditure

**WIP Infrastructure** (R44 528 722)

**Depreciation** (R1 581 200)

**WIP (Refurbishment of transformer)** R358 510

**Depreciation** (R36 718)

##### 3. Investment property Property exchange

**Investment Property** (R650 000)

**Investment Property** R400 000

##### 4. Interest charged on consumer accounts

This is a reversal of interest on consumer accounts charged in 2014/15 to 2016/17 financial year

**Consumer Suspence(Interest)** (R1 569 557)

##### 5. Municipal debtors levies not transefed to expenditure

Reversing municipal debt levied in prior years

**Consumer Debtors** (R 7 547 872)

##### 6. Raising 2016/17 Accruals

**Accruals** (R493 232.50)

### 44. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

#### **Income Statement**

	<b>2016/17 AFS</b>	<b>2017/18</b>	<b>Diff</b>	<b>Comments</b>
Service Charges	948 273 262	944 304 232	3 969 030	Service Connections mapped in other revenue
Sundry Revenue	3 647 339	7 774 422.00	-4 127 083	Services connections remapped from service charges
Other Revenue	7 854 510	7 696 457.00	158 053	Services connections remapped from service charges
<b>Effect</b>		-		
Repairs and Maintanance	85 654 025	-	85 654 025	Moving Repairs to general expenses as per MSCOA requirement
Contracted Services	61 245 745	69 248 094.00	-8 002 349	Remapping other general expens balance to contracted services
General Expenses	222 485 641	300 137 317.00	-77 651 676	
	-			

### 45. Risk management

#### **Financial risk management**

##### **Liquidity risk**

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

##### **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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand 2018 2017

### 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 over the next 12 months.

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated deficit of R433million and that the municipality's Cash and Cash Equivalent is R 57.4million which is not adequate to cover the current liabilities of the municipality. Although the current liabilities exceed current assets, however the collection rate poses a risk in the confidence that all outstanding debtors will be collected. Over the next twelve months, the municipality is committed to ensure that expenditure is kept within the funded and approved budget and to increase its collection rate. The municipality has already started implementing number of revenue strategies in order to keep afloat. These includes the community outreach programme, the engagement of DBSA and CoGTA on revenue collection strategies and government debt.

### 47. Events after the reporting date

National Treasury has rejected the application of the roll-over of unspent conditional grants for the 2017/18 financial year for the Neighbourhood Development Partnership Grant (NDPG) of R12.1 million, based on the following reason per the letter:

"The submission by the municipality had inconsistencies and did not adequately document the reasons for the unspent grant in line with circular 91."

### 48. Unauthorised expenditure

Opening Balance	(793 827 005)	(673 829 662)
Budget expenditure	2 114 882 951	1 972 828 585
Actual expenditure	(2 239 066 128)	(2 092 825 928)
	<u>(918 010 182)</u>	<u>(793 827 005)</u>

The municipality incurred unauthorised expenditure of R124 million in 2017/18 financial year, totalling R918 million inclusive of prior years. This mainly due to overexpenditure in employee costs, contracted services and general expenses. Unauthorised expenditure on employee costs is attributable to of overtime, pension fund contributions as well as the acting allowances. Unauthorised expenditure on general expenses relates to machinery and plant hire for emergency water and sanitation services. Unauthorised expenditure on contracted services relates to security services due to the new contract. The process of investigating unauthorised expenditure of R793.8 relating to prior years in currently underway as required by S32 of the MFMA.

### 49. Fruitless and wasteful expenditure

Opening balance	1 501 467	418 515
Eskom overdue interest	3 451 269	1 082 952
SARS late payments	3 936 514	-
DBSA Bank	584 101	-
Ithala bank	1 592	-
Department of Labour - Workmans Comp Interest charged	499 399	-
	<u>9 974 342</u>	<u>1 501 467</u>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>50. Irregular expenditure</b>		
Opening balance	187 643 508	139 656 574
Add: Irregular Expenditure - current year	95 694 689	47 986 934
	<b>283 338 197</b>	<b>187 643 508</b>
<b>Payments made on expired contracts</b>		
Central Brigde Trading		134 677
Simamane Construction		1 764 664
Jenny Internet		78 174
The Image House		230 000
Sizisa Ukhanyo Trading 471		625 285
Ndimba Transportation		852 960
Scammony		1 191 141
SS Masondo		1 708 263
TJ Mphela Attorneys		165 432
DBM Attorneys		769 115
Inside Data		823 606
Klus Civils		15 035 717
MI7 Security Intelligency		953 496
SYnapsis Software		527 129
		-
		<b>24 859 659</b>
<b>Awards to employees in service of the state</b>		
EN Ngcobo	Simphiwosamanyuswa (Pty) LTD	25 718
AT Madlala	Psalms Recording and Events Man	3 560
Lousa Dlamini	Mpembeyolwandle Trading	29 000
NL Kubheka	Aphiwe Shandu (Pty) LTD	89 000
CT Sithole	Asimtuse (Pty) LTD	30 000
Mthembeni Mkhize	Otis (Pty) LTD	166 630
Godongwana	Chubb Security SA (Pty) LTD	14 331
Nomonde Buyisiwe Mabuya	AON South Africa PTY LTD	912 222
Kentse Yende	Fountain Civils Engineering	758
Bridgeman Sithole / Mathuthukana G Mokoka	Schindler Lifts PTY Ltd	10 958
BM Dlamini	Banothile Civils Engineering	23 500
		<b>1 305 677</b>
<b>Payments made to contracts where SCM procedures were not followed</b>		
Martiq 282 CC t/a Tap Plumbing	397 233	
Kenyon Security	616 584	
Sizabonke Civils t/a Pilcon Project	8 569 376	
Kuntwela Enzansi Ventures	3 466 443	
Bidwin	1 698 334	
Gladmod Transport and Projects	3 001 500	
Khinci Investment	19 656	
Megaphase Road Marking	138 791	
Senzangakhona Industrial Suppliers	275 515	
Shantis Electrical	6 917 854	
Royal Pelican Bed and Breakfast	19 800	
Bonanmazansi Game Reserve	44 640	
Umqhele Bed and Breakfast	57 200	
BBC Projects and Fencing JV Silimasonke Civil Engineering CC	732 029	
Sandman Sizazonke	609 670	
Ilitha Lesizwe Consulting Pty LTD	2 737 688	
Mlokothwa Construction and Management	1 480 659	
Pawacons (Pty) LTD	629 897	

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>50. Irregular expenditure (continued)</b>		
Urban and Rural Construction	4 974 730	
Pangaea Expertise and Solutions	47 150	
Setheo Engineering	5 859 226	
SA Fence and Gate	805 720	
LH Marthinusen Denver a Division of Actom (pty) LTD	3 824 398	
Halalasizwe PTY Ltd	200 000	
Moteko Construction Cost Consultants and Project Managers	4 673 874	
Davido Trading CC	97 146	
Central bridge trading	43 560	
Sandmans Sizazonke	98 560	
Vodacom	2 609 826	
Config Systems	98 980	
Global Payment Technologies	10 701	
Logo Graphics CC	4 025	
ASSA Abloy	110 301	
University of Zululand	640 770	
Bonakude Consulting	9 688 167	
M Charlie	1 488 102	
Actom (Pty) LTD	2 724 838	
Dlongwane General Trading	116 410	
	<b>69 529 353</b>	
<b>Awards to close family members of persons in service of the institution</b>		
Lokothwayo Marketing Enterprise - S Dlamini	361 500	
Dlongwane General Trading - ZWT Zwane	1 511 586	
Munky Trading - SW Ntshalintshali	13 150	
	<b>1 886 236</b>	
<b>51. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Current year subscription / fee	5 283 317	4 651 860
Amount paid - current year	(5 283 317)	(4 651 860)
	<b>-</b>	<b>-</b>
<b>Audit fees</b>		
Opening balance	-	170 165
Current year subscription / fee	3 577 235	3 733 544
Amount paid - current year	(3 562 487)	(3 903 709)
	<b>14 748</b>	<b>-</b>
<b>PAYE and UIF</b>		
Current year subscription / fee	80 268 828	72 134 883
Amount paid - current year	(80 268 828)	(72 134 883)
	<b>-</b>	<b>-</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand 2018 2017

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

#### Pension and Medical Aid Deductions

Current year subscription / fee	111 640 778	109 856 063
Amount paid - current year	(111 640 778)	(109 856 063)
	<u>-</u>	<u>-</u>

#### VAT

VAT payable	1 775 605	2 390 525
	<u>1 775 605</u>	<u>2 390 525</u>

#### Councillors' arrear consumer accounts

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

30 June 2018	Outstanding less than 90 days	Outstanding more than 90 days	Total
Cllr EK Nkosi	4 129	-	4 129
Cllr NY Mbatha	3 537	-	3 537
Cllr NY Mahlubi	2 219	-	2 219
Cllr M Shunmugam	1 268	-	1 268
Cllr GMB Thwala	1 062	-	1 062
Cllr MS&MG Mlangeni	-	8 772	8 772
Cllr MS Mlangeni	-	15 665	15 665
Cllr MV Buhali	-	4 708	4 708
	<u>12 215</u>	<u>29 145</u>	<u>41 360</u>

30 June 2017	Outstanding less than 90 days	Outstanding more than 90 days	Total
Cllr MV Buhali	321	12 182	12 503
Cllr AA Coka	14	12 823	12 837
Cllr NY Mahlubi	2 330	-	2 330
Cllr NY Mbatha	2 986	-	2 986
Cllr MS&MG Mlangeni	763	8 018	8 781
Cllr MS Mlangeni	2 016	13 964	15 980
Cllr VP Nzima	710	534	1 244
Cllr EM Nkosi	1 546	-	1 546
Cllr MP Sibilwane	575	-	575
Cllr GMB Thwala	1 390	-	1 390
Cllr SJ Zulu	-	114	114
Cllr SJ Zulu	-	193	193
Cllr TM&NM Zulu	1 902	-	1 902
	<u>14 553</u>	<u>47 828</u>	<u>62 381</u>

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 2018

## Notes to the Annual Financial Statements

Figures in Rand 2018 2017

### 52. 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.

#### Deviations

Section 16	11 443	61 776
Section 17	291 060	112 396
Section 36	1 010 178	4 210 272
	<b>1 312 681</b>	<b>4 384 444</b>

### 53. Water distribution losses

Input Volume (KI)	29 411 430	28 284 229
Sales		
Water losses (KI)	14 351 352	12 499 598
Water losses (%)	48.8%	44.2%
Bulk Tariff (R/KL)	R3.17	R2.56
Water Losses (R)	R45 493 786	R31 998 970

#### Water distribution losses comprises of the following:

##### Physical / Real losses

Leaking from transmission and distribution mains ( leaks and burst pipes) as well as leaking on services connections up to the customer's meter were noted as physical losses

##### Commercial / apparent losses

Unauthorised consumptions consisting of illegal connections, meter bypass and illegal uses of fire hydrant were noted as apparent losses, furthermore customer meter inaccuracy due to old meter and intermittent water supply were also reason for the losses. Human error from manual reading and capturing of data resulted in meter reading errors, data handling and accounting errors

### 54. Electricity distribution losses

Purchases (KWH)	624 146 150	699 795 153
Less: Sales	598 153 549	(675 207 653)
Loss of units	25 992 601	24 587 499
Loss of units (%)	4.16%	3.51%
Estimated cost per unit - Cents	R0.59	R0.59
Estimated cost of loss (R)	R15 335 635	R14 506 624

#### Electricity distribution losses 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. Administrative losses are minimal as the municipality ensures that the 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 losses.

##### 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.