



**NEWCASTLE MUNICIPALITY**  
(Registration number KZ252)

**ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2019**

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## General Information

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### Legal form of entity

Municipality in terms of section 1 of the Local Government: Municipal Structures Act ( Act 117 of 1998) read with section 155(1) of the Constitution of the republic of South Africa ( Act 108 of 1996)

### Nature of business and principal activities

The provision of services ( electricity, water, sanitation and refuse) to communities in a sustainable manner, to promote social and economic development, and to promote a safe and healthy environment.

### Mayor

Executive Committee

Cllr Dr NNG Mahlaba

Cllr VV Barn

Cllr EJC Cronje

Cllr RN Mdluli

Cllr RM Molelekoa

Cllr M Shunmugam

Cllr SM Thwala

Cllr NA Zwane

Vacant

### Councillors

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 A Khoza

Cllr BV Khumalo

Cllr PJ Khumalo

Cllr VD Kubeka

Cllr C Liu

Cllr NK Majosi

Cllr FA Malinga

Cllr AM Mbuli

Cllr AP Meiring

Cllr SG Miya

Cllr HN Mkhwanazi

Cllr TP Mkhwanazi

Cllr MS Mlangeni

Cllr SW Mngomezulu

Cllr NG Mngumi

Cllr AS Mokoena

Cllr MV Molefe

Cllr MV Mthembu

Cllr PB Mwali

Cllr VP Mzima

Cllr TM Ndaba

Cllr RB Ndim

Cllr SS Ndlangamandla

Cllr MS Ndlovu

Cllr PF Ndlovu

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## General Information

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Cllr ME Ngcobo  
Cllr BC Ngema  
Cllr DR Ngema  
Cllr D Ngwenya  
Cllr CL Nhlapho  
Cllr SJ Nhlapho  
Cllr SN Nkosi  
Cllr JB Nkwanazi  
Cllr TM Nzuza  
Cllr SE Shabangu  
Cllr DM Sibilwane  
Cllr LT Sikhosane  
Cllr GMB Thwala  
Cllr LG Thwala  
Cllr Dr JA Vorster  
Cllr SA Yende  
Cllr MF Zikhali  
Cllr VG Zondo  
Cllr NS Zulu  
Cllr SJ Zulu  
Cllr SZ Zulu  
Cllr TM Zulu  
Vacant

**Grading of local authority**

4

**Accounting Officer**

MJ Mayisela (Acting)

**Chief Finance Officer (CFO)**

SM Nkosi (Acting)

**Registered office**

37 Murchison Street  
Newcastle  
2940

**Business address**

37 Murchison Street  
Newcastle  
2940

**Postal address**

Private Bag X 6621  
Newcastle  
2940

**Bankers**

Nedbank

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## 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 2020 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 are prepared on the basis that the municipality is a going concern and that the Newcastle Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the accounting officer on 30 June 2019 and were signed on its behalf by:

  

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Accounting Officer  
MJ Mayisela

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Financial Position as at 30 June 2019

	Note(s)	2019	2018 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	10	14 040 157	12 462 150
Other financial assets	8	1 646	3 621
Receivables from exchange transactions	11	81 187 338	64 591 613
Receivables from non-exchange transactions	12	14 335 398	13 287 220
Consumer debtors from exchange transactions	13	487 636 133	399 431 715
Consumer debtors from non-exchange transactions	13	103 098 282	84 258 496
Cash and cash equivalents	14	9 999 201	57 464 870
		<b>710 298 155</b>	<b>631 499 685</b>
<b>Non-Current Assets</b>			
Investment property	3	355 813 618	440 818 000
Property, plant and equipment	4	6 787 874 567	6 953 635 738
Intangible assets	5	3 001 185	5 585 264
Heritage assets	6	11 488 232	11 199 875
Investments in associates	7	234 927 851	269 999 530
		<b>7 393 105 453</b>	<b>7 681 238 407</b>
<b>Total Assets</b>		<b>8 103 403 608</b>	<b>8 312 738 092</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Other financial liabilities	17	25 598 172	29 483 981
Finance lease obligation	15	852 924	233 511
Payables from exchange transactions	20	735 890 350	621 200 746
VAT payable	21	9 783 001	1 775 605
Consumer deposits	22	23 497 274	18 966 524
Unspent conditional grants and receipts	16	33 439 273	56 316 815
Defined Benefit Plan	18	8 667 735	7 997 613
Provision for Rehabilitation of Landfill site	19	-	31 292 755
		<b>837 728 729</b>	<b>767 267 550</b>
<b>Non-Current Liabilities</b>			
Other financial liabilities	17	400 805 603	402 570 627
Finance lease obligation	15	392 517	24 309
Defined Benefit Plan	18	148 355 252	145 207 202
Provision for Rehabilitation of Landfill site	19	28 843 889	-
		<b>578 397 261</b>	<b>547 802 138</b>
<b>Total Liabilities</b>		<b>1 416 125 990</b>	<b>1 315 069 688</b>
<b>Net Assets</b>		<b>6 687 277 618</b>	<b>6 997 668 404</b>
<b>Reserves</b>			
Housing Development fund		28 021 720	26 076 953
Self insurance reserve		497 014	472 159
Accumulated surplus		6 658 758 884	6 971 119 275
<b>Total Net Assets</b>		<b>6 687 277 618</b>	<b>6 997 668 387</b>

\* See Note 46

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Financial Performance

	Note(s)	2019	2018 Restated*
<b>Revenue</b>			
Service charges	24	996 977 844	962 428 082
Rental of facilities and equipment	25	11 803 212	7 814 644
Sundry revenue	27	2 915 580	2 808 974
Other income	27	766 901	931 633
Fee income	27	9 151 834	11 118 686
Interest received	28	12 907 083	15 420 561
Property Rates	29	287 110 172	253 485 719
Government grants & subsidies	30	509 802 892	556 662 414
Fines		8 650 101	6 680 062
<b>Total revenue</b>		<b>1 840 085 619</b>	<b>1 817 350 775</b>
<b>Expenditure</b>			
Employee costs	31	567 840 894	548 805 318
Remuneration of councillors	32	24 481 651	23 164 255
Depreciation and amortisation	33	369 427 699	449 661 715
Finance costs	35	79 777 180	49 571 016
Debt Impairment	36	179 747 429	208 940 574
Collection costs		778 122	1 657 929
Bulk purchases	37	521 388 272	540 941 513
Contracted services	38	116 099 751	133 392 812
General Expenses	39	269 242 169	272 732 138
<b>Total expenditure</b>		<b>2 128 783 167</b>	<b>2 228 867 270</b>
<b>Operating deficit</b>		<b>(288 697 548)</b>	<b>(411 516 495)</b>
Share of deficit in investment in associates		(35 071 678)	(31 300 083)
Actuarial gains/losses	9	10 765 537	(5 793 705)
Fair value adjustments to investment property	40	15 370 000	14 584 000
Impairment loss	34	(16 205 077)	(4 372 191)
Profit/(Loss) on Sale of Assets		3 382 489	-
		<b>(21 758 729)</b>	<b>(26 881 979)</b>
<b>Deficit for the year</b>		<b>(310 456 277)</b>	<b>(438 398 474)</b>

\* See Note 46

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Changes in Net Assets

	Housing Development Fund	Self Insurance Reserve	Total reserves	Accumulated surplus	Total net assets
<b>Balance at 01 July 2017</b>	<b>25 071 001</b>	<b>530 020</b>	<b>25 601 021</b>	<b>7 108 668 509</b>	<b>7 134 269 530</b>
Changes in net assets					
Deficit for the year	-	-	-	(438 398 474)	(438 398 474)
Prior Year Error Inv Ass	-	-	-	(480 986)	(480 986)
Prior Year Adjustment - WIP	-	-	-	(21 381 848)	(21 381 848)
Transfer to Housing Development Fund	1 005 952	-	1 005 952	(1 005 952)	-
Transfer from Self Insurance Reserve	-	(57 861)	(57 861)	57 861	-
Prior year Adjustments on Debtors	-	-	-	(57 695)	(57 695)
Prior Year Adjustment - PPE	-	-	-	234 312 871	234 312 871
Prior Year Adjustment - Accruals	-	-	-	24 461 624	24 461 624
Prior Year Adjustment - Heritage Asset	-	-	-	3 731 365	3 731 365
Prior Year Adjustment - Assets (IP)	-	-	-	61 212 000	61 212 000
<b>Total changes</b>	<b>1 005 952</b>	<b>(57 861)</b>	<b>948 091</b>	<b>(137 549 234)</b>	<b>(136 601 143)</b>
<b>Restated* Balance at 01 July 2018</b>	<b>26 076 953</b>	<b>472 159</b>	<b>26 549 112</b>	<b>6 971 119 275</b>	<b>6 997 668 387</b>
Deficit for the year	-	-	-	(310 456 277)	(310 456 277)
Transfer of income surplus to trust capital	1 944 767	-	1 944 767	(1 944 767)	-
Transfer of capital surplus to trust capital	-	24 855	24 855	(24 855)	-
Transfer to Accumulated Surplus	-	-	-	65 508	65 508
<b>Total changes</b>	<b>1 944 767</b>	<b>24 855</b>	<b>1 969 622</b>	<b>(312 360 391)</b>	<b>(310 390 769)</b>
<b>Balance at 30 June 2019</b>	<b>28 021 720</b>	<b>497 014</b>	<b>28 518 734</b>	<b>6 658 758 884</b>	<b>6 687 277 618</b>

\* See Note 46



# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Cash Flow Statement

	Note(s)	2019	2018 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		1 095 714 453	1 059 516 765
Grants		529 560 695	556 662 414
Interest income		12 907 083	15 420 561
		<u>1 638 182 231</u>	<u>1 631 599 740</u>
<b>Payments</b>			
Employee costs and Councillors remuneration		(592 322 545)	(571 969 573)
Suppliers		(876 408 367)	(765 694 455)
Finance costs		(79 777 180)	(49 571 016)
		<u>(1 548 508 092)</u>	<u>(1 387 235 044)</u>
<b>Net cash flows from operating activities</b>	42	<u><b>89 674 139</b></u>	<u><b>244 364 696</b></u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(146 656 618)	(178 368 024)
Proceeds from sale of property, plant and equipment	4	4 426 740	-
Proceeds from sale of Investment property	3	5 374 382	-
Purchase of other intangible assets	5	(120 650)	(4 879)
Purchases of Heritage Assets	6	(31 200)	-
<b>Net cash flows from investing activities</b>		<u><b>(137 007 346)</b></u>	<u><b>(178 372 903)</b></u>
<b>Cash flows from financing activities</b>			
Net movements in long term loans		(5 650 833)	(58 824 081)
Movement in Consumer Deposits		4 530 750	-
Movement on finance lease		987 621	(210 600)
<b>Net cash flows from financing activities</b>		<u><b>(132 462)</b></u>	<u><b>(59 034 681)</b></u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u><b>(47 465 669)</b></u>	<u><b>6 957 112</b></u>
Cash and cash equivalents at the beginning of the year		57 464 870	50 507 758
<b>Cash and cash equivalents at the end of the year</b>	14	<u><b>9 999 201</b></u>	<u><b>57 464 870</b></u>

\* See Note 46

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## 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
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	1 013 191 116	33 404 485	1 046 595 601	996 977 844	(49 617 757)	
Other own revenue	70 970 222	(12 500 281)	58 469 941	41 302 177	(17 167 764)	
Investment Revenue	4 040 869	-	4 040 869	4 892 534	851 665	
<b>Total revenue from exchange transactions</b>	<b>1 088 202 207</b>	<b>20 904 204</b>	<b>1 109 106 411</b>	<b>1 043 172 555</b>	<b>(65 933 856)</b>	
<b>Revenue from non-exchange transactions</b>						
Property rates	295 784 972	(13 000 000)	282 784 972	287 110 172	4 325 200	
<b>Transfer revenue</b>						
Government grants & subsidies	384 734 000	69 174 800	453 908 800	509 802 892	55 894 092	
<b>Total revenue from non-exchange transactions</b>	<b>680 518 972</b>	<b>56 174 800</b>	<b>736 693 772</b>	<b>796 913 064</b>	<b>60 219 292</b>	
<b>Total revenue</b>	<b>1 768 721 179</b>	<b>77 079 004</b>	<b>1 845 800 183</b>	<b>1 840 085 619</b>	<b>(5 714 564)</b>	
<b>Expenditure</b>						
Employee costs	(530 225 473)	(47 100 893)	(577 326 366)	(567 840 894)	9 485 472	
Remuneration of councillors	(24 158 867)	(911 686)	(25 070 553)	(24 481 651)	588 902	
Depreciation and amortisation	(525 578 232)	53 433 431	(472 144 801)	(369 427 699)	102 717 102	
Finance costs	(43 889 965)	(2 326 669)	(46 216 634)	(79 777 180)	(33 560 546)	
Material & Bulk purchases	(622 492 975)	88 994 188	(533 498 787)	(527 879 266)	5 619 521	
Other expenditures	(488 164 129)	(154 984 987)	(643 149 116)	(559 376 477)	83 772 639	
<b>Total expenditure</b>	<b>(2 234 509 641)</b>	<b>(62 896 616)</b>	<b>(2 297 406 257)</b>	<b>(2 128 783 167)</b>	<b>168 623 090</b>	
<b>Operating deficit</b>	<b>(465 788 462)</b>	<b>14 182 388</b>	<b>(451 606 074)</b>	<b>(288 697 548)</b>	<b>162 908 526</b>	
Transfers Recognised Capital	162 425 500	(9 606 454)	152 819 046	126 980 973	(25 838 073)	
Fair value adjustments	-	-	-	15 370 000	15 370 000	
Actuarial gains/losses	-	-	-	10 765 537	10 765 537	
Share of surpluses or (deficits) from Investments in associates	-	-	-	(35 071 678)	(35 071 678)	
Profit/(Loss) on sale of assets	-	-	-	3 382 489	3 382 489	
Impairment Loss	-	-	-	(16 205 077)	(16 205 077)	
	<b>162 425 500</b>	<b>(9 606 454)</b>	<b>152 819 046</b>	<b>105 222 244</b>	<b>(47 596 802)</b>	
<b>Deficit before taxation</b>	<b>(303 362 962)</b>	<b>4 575 934</b>	<b>(298 787 028)</b>	<b>(183 475 304)</b>	<b>115 311 724</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>(303 362 962)</b>	<b>4 575 934</b>	<b>(298 787 028)</b>	<b>(183 475 304)</b>	<b>115 311 724</b>	

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## 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
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	15 575 000	(2 423 000)	13 152 000	14 040 157	888 157	
Other financial assets	-	-	-	1 646	1 646	
Receivables from exchange transactions	-	-	-	81 187 338	81 187 338	
Receivables from non-exchange transactions	33 098 000	63 920 000	97 018 000	14 335 398	(82 682 602)	
Consumer debtors	305 160 000	175 360 000	480 520 000	590 734 414	110 214 414	
Cash and cash equivalents	12 216 000	32 477 000	44 693 000	9 999 201	(34 693 799)	
	<b>366 049 000</b>	<b>269 334 000</b>	<b>635 383 000</b>	<b>710 298 154</b>	<b>74 915 154</b>	
<b>Non-Current Assets</b>						
Investment property	361 651 000	17 955 000	379 606 000	355 813 618	(23 792 382)	
Property, plant and equipment	6 840 820 000	(241 712 000)	6 599 108 000	6 787 874 567	188 766 567	
Intangible assets	7 650 000	(4 809 000)	2 841 000	3 001 185	160 185	
Heritage assets	7 425 800	43 000	7 468 800	11 488 232	4 019 432	
Investments in associates	298 182 000	(22 903 000)	275 279 000	234 927 851	(40 351 149)	
	<b>7 515 728 800</b>	<b>(251 426 000)</b>	<b>7 264 302 800</b>	<b>7 393 105 453</b>	<b>128 802 653</b>	
<b>Total Assets</b>	<b>7 881 777 800</b>	<b>17 908 000</b>	<b>7 899 685 800</b>	<b>8 103 403 607</b>	<b>203 717 807</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Other financial liabilities	33 987 000	(8 388 000)	25 599 000	25 598 172	(828)	
Finance lease obligation	-	-	-	852 924	852 924	
Payables from exchange transactions	240 096 000	159 443 000	399 539 000	735 890 350	336 351 350	
VAT payable	-	-	-	9 783 001	9 783 001	
Consumer deposits	16 867 000	5 660 000	22 527 000	23 497 275	970 275	
Unspent conditional grants and receipts	-	32 600 000	32 600 000	33 439 273	839 273	
Defined Benefit Plan	6 691 000	-	6 691 000	8 667 735	1 976 735	
	<b>297 641 000</b>	<b>189 315 000</b>	<b>486 956 000</b>	<b>837 728 730</b>	<b>350 772 730</b>	
<b>Non-Current Liabilities</b>						
Other financial liabilities	373 941 000	16 455 500	390 396 500	400 805 603	10 409 103	
Finance lease obligation	-	-	-	392 516	392 516	
Defined Benefit Plan	130 979 800	(15 773 500)	115 206 300	148 355 252	33 148 952	
Provision for Rehabilitation of Landfill site	30 000 000	-	30 000 000	28 843 889	(1 156 111)	
	<b>534 920 800</b>	<b>682 000</b>	<b>535 602 800</b>	<b>578 397 260</b>	<b>42 794 460</b>	
<b>Total Liabilities</b>	<b>832 561 800</b>	<b>189 997 000</b>	<b>1 022 558 800</b>	<b>1 416 125 990</b>	<b>393 567 190</b>	
<b>Net Assets</b>	<b>7 049 216 000</b>	<b>(172 089 000)</b>	<b>6 877 127 000</b>	<b>6 687 277 617</b>	<b>(189 849 383)</b>	

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## 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
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Housing Development Fund	1 771 000	2 919 000	<b>4 690 000</b>	28 021 720	<b>23 331 720</b>	
Insurance reserve	500 000	4 000	<b>504 000</b>	497 014	<b>(6 986)</b>	
Accumulated surplus	7 046 945 000	(175 012 000)	<b>6 871 933 000</b>	6 658 758 883	<b>(213 174 117)</b>	
<b>Total Net Assets</b>	<b>7 049 216 000</b>	<b>(172 089 000)</b>	<b>6 877 127 000</b>	<b>6 687 277 617</b>	<b>(189 849 383)</b>	

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## 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
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Sale of goods	1 131 071 000	22 257 000	1 153 328 000	1 095 714 453	(57 613 547)	
Grants	547 160 000	50 740 000	597 900 000	529 560 695	(68 339 305)	
Interest received	9 328 000	(886 000)	8 442 000	12 907 083	4 465 083	
	<b>1 687 559 000</b>	<b>72 111 000</b>	<b>1 759 670 000</b>	<b>1 638 182 231</b>	<b>(121 487 769)</b>	
<b>Payments</b>						
Employee costs and payments to suppliers	(1 492 315 000)	(103 244 000)	(1 595 559 000)	(1 468 730 912)	126 828 088	
Finance costs	(43 979 000)	397 000	(43 582 000)	(79 777 180)	(36 195 180)	
	<b>(1 536 294 000)</b>	<b>(102 847 000)</b>	<b>(1 639 141 000)</b>	<b>(1 548 508 092)</b>	<b>90 632 908</b>	
<b>Net cash flows from operating activities</b>	<b>151 265 000</b>	<b>(30 736 000)</b>	<b>120 529 000</b>	<b>89 674 139</b>	<b>(30 854 861)</b>	
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment	(205 576 000)	(18 489 000)	(224 065 000)	(146 656 618)	77 408 382	
Proceeds from sale of property, plant and equipment	21 200 000	(8 000 000)	13 200 000	9 801 122	(3 398 878)	
Purchase of other intangible assets	-	-	-	(120 650)	(120 650)	
Purchases of heritage assets	-	-	-	(31 200)	(31 200)	
Purchase of financial assets	33 125 000	12 634 000	45 759 000	-	(45 759 000)	
<b>Net cash flows from investing activities</b>	<b>(151 251 000)</b>	<b>(13 855 000)</b>	<b>(165 106 000)</b>	<b>(137 007 346)</b>	<b>28 098 654</b>	
<b>Cash flows from financing activities</b>						
Movement in long term loans	(32 000 000)	15 940 000	(16 060 000)	(5 650 833)	10 409 167	
Movement in finance leases	-	-	-	987 621	987 621	
Consumer deposits	-	3 561 000	3 561 000	4 530 750	969 750	
<b>Net cash flows from financing activities</b>	<b>(32 000 000)</b>	<b>19 501 000</b>	<b>(12 499 000)</b>	<b>(132 462)</b>	<b>12 793 397</b>	
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(31 986 000)</b>	<b>(25 090 000)</b>	<b>(57 076 000)</b>	<b>(47 465 669)</b>	<b>10 037 190</b>	
<b>Cash and cash equivalents at the beginning of the year</b>	<b>33 251 000</b>	<b>24 214 000</b>	<b>57 465 000</b>	<b>57 464 870</b>	<b>(130)</b>	
<b>Cash and cash equivalents at the end of the year</b>	<b>1 265 000</b>	<b>(876 000)</b>	<b>389 000</b>	<b>9 999 201</b>	<b>10 037 060</b>	

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Appropriation Statement

	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>2019</b>											
<b>Financial Performance</b>											
Property rates	295 784 972	(13 000 000)	282 784 972	-	-	282 784 972	287 110 172	-	4 325 200	102 %	97 %
Service charges	1 013 191 116	33 404 485	1 046 595 601	-	-	1 046 595 601	996 977 844	-	(49 617 757)	95 %	98 %
Investment revenue	4 040 869	-	4 040 869	-	-	4 040 869	4 892 534	-	851 665	121 %	121 %
Transfers recognised - operational	384 734 000	69 174 800	453 908 800	-	-	453 908 800	509 802 892	-	55 894 092	112 %	133 %
Other own revenue	70 970 222	(12 500 281)	58 469 941	-	-	58 469 941	41 302 177	-	(17 167 764)	71 %	58 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>1 768 721 179</b>	<b>77 079 004</b>	<b>1 845 800 183</b>	-	-	<b>1 845 800 183</b>	<b>1 840 085 619</b>	-	<b>(5 714 564)</b>	<b>100 %</b>	<b>104 %</b>
<b>Employee costs</b>	<b>(530 225 473)</b>	<b>(47 100 893)</b>	<b>(577 326 366)</b>	-	-	<b>(577 326 366)</b>	<b>(567 840 894)</b>	-	<b>9 485 472</b>	<b>98 %</b>	<b>107 %</b>
Remuneration of councillors	(24 158 867)	(911 686)	(25 070 553)	-	-	(25 070 553)	(24 481 651)	-	588 902	98 %	101 %
Debt impairment	(178 269 955)	-	(178 269 955)	-	-	(178 269 955)	(179 747 429)	-	(1 477 474)	101 %	101 %
Depreciation and asset impairment	(525 578 232)	53 433 431	(472 144 801)	-	-	(472 144 801)	(369 427 699)	-	102 717 102	78 %	70 %
Finance charges	(43 889 965)	(2 326 669)	(46 216 634)	-	-	(46 216 634)	(79 777 180)	-	(33 560 546)	173 %	182 %
Materials and bulk purchases	(622 492 975)	88 994 188	(533 498 787)	-	-	(533 498 787)	(527 879 266)	-	5 619 521	99 %	85 %
Other expenditure	(309 894 174)	(154 984 987)	(464 879 161)	-	-	(464 879 161)	(379 629 048)	-	85 250 113	82 %	123 %
<b>Total expenditure</b>	<b>(2 234 509 641)</b>	<b>(62 896 616)</b>	<b>(2 297 406 257)</b>	-	-	<b>(2 297 406 257)</b>	<b>(2 128 783 167)</b>	-	<b>168 623 090</b>	<b>93 %</b>	<b>95 %</b>
<b>Surplus/(Deficit)</b>	<b>(465 788 462)</b>	<b>14 182 388</b>	<b>(451 606 074)</b>	-	-	<b>(451 606 074)</b>	<b>(288 697 548)</b>	-	<b>162 908 526</b>	<b>64 %</b>	<b>62 %</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments	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
Transfers recognised - capital	162 425 500	(9 606 454)	152 819 046	-	-	152 819 046	126 980 973		(25 838 073)	83 %	78 %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>(303 362 962)</b>	<b>4 575 934</b>	<b>(298 787 028)</b>	-	-	<b>(298 787 028)</b>	<b>(161 716 575)</b>		<b>137 070 453</b>	<b>54 %</b>	<b>53 %</b>
Share of surplus (deficit) of associate	-	-	-	-	-	-	(35 071 678)		(35 071 678)	DIV/0 %	DIV/0 %
Actuarial gains/(losses)	-	-	-	-	-	-	10 765 537		10 765 537	DIV/0 %	DIV/0 %
Fair value adjustment	-	-	-	-	-	-	15 370 000		15 370 000	DIV/0 %	DIV/0 %
Impairment loss	-	-	-	-	-	-	(16 205 077)		(16 205 077)	DIV/0 %	DIV/0 %
Profit/(Loss) on Sale of Assets	-	-	-	-	-	-	3 382 489		3 382 489	DIV/0 %	DIV/0 %
<b>Surplus/(Deficit) for the year</b>	<b>(303 362 962)</b>	<b>4 575 934</b>	<b>(298 787 028)</b>	-	-	<b>(298 787 028)</b>	<b>(139 957 846)</b>		<b>158 829 182</b>	<b>47 %</b>	<b>46 %</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Appropriation Statement

	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 as % of final budget	Actual outcome as % of original budget
<b>Cash flows</b>										
Net cash from (used) operating	151 265 000	(30 736 000)	120 529 000	-	-	120 529 000	89 674 139		(30 854 861)	74 %
Net cash from (used) investing	(151 251 000)	(13 855 000)	(165 106 000)	-	-	(165 106 000)	(137 007 346)		28 098 654	83 %
Net cash from (used) financing	(32 000 000)	19 501 000	(12 499 000)	-	-	(12 499 000)	(132 462)		12 366 538	1 %
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(31 986 000)</b>	<b>(25 090 000)</b>	<b>(57 076 000)</b>	<b>-</b>	<b>-</b>	<b>(57 076 000)</b>	<b>(47 465 669)</b>		<b>9 610 331</b>	<b>83 %</b>
Cash and cash equivalents at the beginning of the year	33 251 000	24 214 000	57 465 000	-	-	57 465 000	57 464 870		(130)	100 %
<b>Cash and cash equivalents at year end</b>	<b>1 265 000</b>	<b>(876 000)</b>	<b>389 000</b>	<b>-</b>	<b>-</b>	<b>389 000</b>	<b>9 999 201</b>		<b>(9 610 201)</b>	<b>2 570 %</b>
										<b>790 %</b>



# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## 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.

#### 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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.3 Investment property (continued)

#### Fair value

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

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

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

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

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

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

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

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

The nature or type of properties classified as held for strategic purposes are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note ).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note ).

### 1.4 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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

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

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

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

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

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

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.

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

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# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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

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
Landfill site	Straight line	5 years
Heritage	Straight line	Infinite

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

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

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

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.

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note ).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note ).

### 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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.5 Site restoration and dismantling cost (continued)

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.

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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.6 Intangible assets (continued)

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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The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note ).

Intangible assets are derecognised:

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

### 1.7 Heritage assets

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

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

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

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

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

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

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

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

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

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

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

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# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.7 Heritage assets (continued)

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

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

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

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note ).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note ).

#### Recognition

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

#### Initial measurement

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).

# Newcastle Municipality

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## Accounting Policies

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### 1.8 Investments in associates

An associate is an entity in which the investor has significant influence and which is neither a controlled nor a joint venture of the investor. Significant influence is the power to participate in the financial and operating policy 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 exist and discontinues the application of the equity method when it no longer has significant influence over an associate. Investment 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 the 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 Statement 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.

### 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.



# Newcastle Municipality

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## Accounting Policies

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### 1.9 Financial instruments (continued)

A financial asset is:

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

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

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

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

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

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

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

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

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

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

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

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

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

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;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.9 Financial instruments (continued)

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

#### Initial recognition

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

The entity recognises financial assets using trade date accounting.

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

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

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

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.9 Financial instruments (continued)

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

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

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

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

#### Reclassification

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

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

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

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

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

#### Gains and losses

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

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

#### Impairment and uncollectibility of financial assets

The entity 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.

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

Financial assets measured at cost:

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.9 Financial instruments (continued)

#### Derecognition

##### Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognises 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

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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.9 Financial instruments (continued)

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

#### 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 Leases

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

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

#### Finance leases - lessee

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

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

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.10 Leases (continued)

#### Operating leases - lessor

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

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

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

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

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

#### Operating leases - lessee

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

### 1.11 Inventories

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

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

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

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

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

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

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

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

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

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

### 1.12 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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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

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.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

[Specify judgements made]

#### 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.

## Accounting Policies

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### 1.12 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.

### 1.13 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

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## Accounting Policies

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### 1.13 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.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

[Specify judgements made]

#### 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.

### 1.14 Share capital / contributed capital

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

### 1.15 Employee benefits

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

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

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

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

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

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

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

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

## Accounting Policies

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### 1.15 Employee benefits (continued)

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

#### Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The 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 recognises 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 2019

## 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 recognises 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 recognises 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 2019

## 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-measures 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 2019

## 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 2019

## 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 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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.16 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of 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 44.

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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.16 Provisions and contingencies (continued)

#### Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

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

If the related asset is measured using the revaluation model:

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

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

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

### 1.17 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.18 Revenue from exchange transactions

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

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.



# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.18 Revenue from exchange transactions (continued)

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 .

### 1.19 Revenue from non-exchange transactions

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

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

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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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

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

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

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

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.

#### Fines

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

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

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

### 1.20 Investment income

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

### 1.21 Borrowing costs

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.22 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.

### 1.23 Comparative figures

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

### 1.24 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.

### 1.25 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.

### 1.26 Irregular expenditure

Irregular expenditure as 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 -Berears Act, 1998 (Act No 20 of 1998); or

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

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.27 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.

### 1.28 Internal reserves

#### Self-insurance reserve

The municipality has a Self-Insurance Reserve to set aside amounts to offset potential losses or claims that cannot be insured externally (adapt to specific circumstances). The balance of the Self-Insurance Reserve is determined based on 5% of the insurance risk carried by the municipality (state basis of determining balance of self-insurance reserve) and past claims history in terms of a Council Resolution XX and is reinstated or increased by a transfer from the accumulated surplus/(deficit). The balance of the self-insurance fund is invested in short-term cash investments.

Claims are settled by transferring a corresponding amount from the self-insurance reserve to the accumulated surplus.

The municipality operates a self-insurance scheme under the Self-Insurance Reserve, which has a policy that is aligned with the practice in the Insurance Industry. The balance of the Self-Insurance Reserve is determined based on surpluses accumulated since inception.

These surpluses arise from the differences between premiums charged against claims paid and various administrative expenditure incurred.

At the end of each financial year the surplus as computed per above is transferred from accumulated surplus to Self-Insurance Reserve.

Premiums are calculated on past claims experienced and are charged to the various Clusters.

The balance of the self-insurance fund is fully cash backed and is invested in fixed and negotiable deposits.

### 1.29 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

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

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.29 Related parties (continued)

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

### 1.30 Events after reporting date

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

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

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
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### 2. New standards and interpretations

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

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2019 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 104 (amended): Financial Instruments	01 April 2020	Unlikely there will be a material impact
• GRAP 34: Separate Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2020	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 April 2020	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

### 3. Investment property

2019		2018	
Cost / Valuation	Accumulated depreciation and impairment	Carrying value	Cost / Valuation
355 813 618	-	355 813 618	440 818 000
			Accumulated depreciation and impairment
			440 818 000

Investment property

### Reconciliation of investment property - 2019

Opening balance	Disposals	Re-Allocation	Fair value adjustments	Total
440 818 000	(5 374 382)	(95 000 000)	15 370 000	355 813 618

Investment property

### Reconciliation of investment property - 2018

Opening balance	Prior Year Error	Total
379 606 000	61 212 000	440 818 000

Investment property

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>3. Investment property (continued)</b>		
<b>Details of valuation</b>		
The effective date of the revaluations was 30 June 2019. 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 R362 852 618 (2018: R447 307 000).		
Investment property values were adjusted by the fair value adjustment of R15 370 000 ( 2018: 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	15 370 000	14 584 000
Rental Revenue recognised in the surplus and deficit for the year	(2 529 407)	(2 712 288)



# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

### 4. Property, plant and equipment

#### Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Work in progress	Disposals	Write-off	Re-valuations	Re-Allocation	Change in estimate	Depreciation	Impairment loss	Exclusions (VAT and Retention)	Total
Land	48 249 648	-	367 043	(1 451 000)	-	(5 071 037)	95 000 000	5 446 566	(75 106)	-	(367 043)	142 099 071
Buildings	397 783 446	1 266 439	132 000	(2 975 749)	-	-	-	(3 502 022)	(15 505 139)	-	-	377 198 975
Infrastructure	6 308 862 710	694 716	108 670 120	-	-	-	4 919 115	(1 552 843)	(325 610 759)	(9 194 661)	(11 791 464)	6 074 996 934
Community	145 229 546	-	20 520 747	-	-	-	8 438 518	(4 032 365)	(5 887 581)	(163 796)	273 567	164 378 636
Finance lease assets	42 775	1 621 914	-	-	-	-	-	-	(538 901)	-	-	1 125 788
Moveable Assets	53 473 304	3 634 890	9 748 749	-	(418)	-	(13 614 791)	-	(15 484 766)	-	(9 701 409)	28 075 559
	<b>6 953 641 429</b>	<b>7 217 959</b>	<b>139 438 659</b>	<b>(4 426 749)</b>	<b>(418)</b>	<b>(5 071 037)</b>	<b>94 742 842</b>	<b>(3 640 664)</b>	<b>(363 082 252)</b>	<b>(9 358 457)</b>	<b>(21 586 349)</b>	<b>6 787 874 963</b>

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

	Opening balance	Additions	Work in Progress	Revaluations	Exclusions (VAT and Retention)	Change in estimate	Depreciation	Impairment loss	Prior Period Errors	Total
Land	49 586 371	-	-	-	-	441 000	(1 852 828)	-	-	48 249 649
Buildings	400 470 548	-	-	-	-	11 235 366	(13 838 733)	-	(83 735)	397 783 446
Infrastructure	6 345 731 066	-	167 935 672	-	44 424	(11 404 928)	(406 201 123)	-	212 757 599	6 308 862 710
Community	138 732 047	-	10 759 322	-	(76 491)	(345 899)	(3 839 433)	-	-	145 229 546
Finance lease assets	277 097	36 495	-	-	-	-	(270 817)	-	-	42 775
Moveable Assets	109 657 499	2 179 306	330 718	-	21 383	(38 153 276)	(20 747 914)	(71 570)	257 158	53 473 304
	<b>7 044 454 628</b>	<b>2 215 801</b>	<b>179 025 712</b>	<b>75 106</b>	<b>(10 684)</b>	<b>(38 227 737)</b>	<b>(446 750 848)</b>	<b>(71 570)</b>	<b>212 931 022</b>	<b>6 953 641 430</b>

#### Explanations of descriptions

Exclusions are made up of VAT adjustments, Retention and costs allocated to OPEX.

Revaluations - Provision for Landfill Site

Transfers - Assets transferred to other entities ( uThukela Water)

Re-allocation - Correction of misclassification of assets

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
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### 4. Property, plant and equipment (continued)

#### Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	217 639 382	42 489 082	257 158	260 385 622
Additions	124 111 659	20 520 747	10 247 792	154 880 198
Impairments	(6 609 206)	-	-	(6 609 206)
Exclusions	(27 233 003)	273 567	(10 068 452)	(37 027 888)
Transferred to completed assets	(215 736 718)	(47 204 735)	(436 498)	(263 377 951)
	<b>92 172 114</b>	<b>16 078 661</b>	<b>-</b>	<b>108 250 775</b>

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

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	208 774 867	39 356 071	39 115 679	287 246 617
Prior year error	(26 788 933)	-	257 158	(26 531 775)
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
Exclusions	(8 813 531)	109 100	-	(8 704 431)
Transferred to completed assets	(117 705 782)	(7 258 003)	(42 844 844)	(167 808 629)
	<b>217 639 382</b>	<b>42 489 082</b>	<b>257 158</b>	<b>260 385 622</b>

Items Making up - other	Building	Land	Heritage	Exclusions	Other	Total
Prior year error	-	-	257 158	-	-	257 158
Additions	132 000	367 043	-	9 748 749	-	10 247 792
Other movements	-	(367 043)	-	(9 748 749)	47 340	(10 068 452)
Transfer to completed assets	(132 000)	-	(257 158)	-	(47 340)	(436 498)
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

Building Maintenance	4 788 361	9 676 804
Infrastructure Maintenance	67 913 423	84 128 884
Land Maintenance	231 935	1 332 410
Maintenance on Moveable Assets	18 188 771	13 862 368
	<b>91 122 490</b>	<b>109 000 466</b>

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

### 5. Intangible assets

	2019		2018		
Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
15 410 195	(12 409 010)	3 001 185	15 289 546	(9 704 282)	5 585 264

Computer software

### Reconciliation of intangible assets - 2019

Opening balance	Additions	Amortisation	Total
5 585 264	120 650	(2 704 729)	3 001 185

Computer software

### Reconciliation of intangible assets - 2018

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

Computer software

### 6. Heritage assets

	2019		2018	
	Cost / Valuation	Accumulated impairment losses	Cost / Valuation	Accumulated impairment losses
	11 488 232	-	11 488 232	11 199 875
				-
				11 199 875

Museums, painting and artifacts

### Reconciliation of heritage assets 2019

## Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

#### 6. Heritage assets (continued)

Museums, painting and artifacts

Opening balance	Additions	Transfers	Total
11 199 875	31 200	257 157	11 488 232

#### Reconciliation of heritage assets 2018

Museums, painting and artifacts

Opening balance	Transfers	Recognising of Existing Asset	Total
6 991 102	477 408	3 731 365	11 199 875

Heritage assets used for more than one purpose

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

				2019	2018
<b>7. Investments in associates</b>					
Name of entity	Listed / Unlisted	% holding 2019	% holding 2018	Carrying amount 2019	Carrying amount 2018
Uthukela water		34.00 %	34.00 %	234 927 851	269 999 530
The carrying amounts of associates are shown net of impairment losses.					
<b>8. Other financial assets</b>					
<b>At amortised cost</b>					
Stand debtors				1 646	3 621
<b>9. Employee benefit obligations</b>					
<b>Calculation of actuarial gains and losses</b>					
Actuarial gains (losses) – Obligation				10 765 537	(5 793 705)
<b>10. Inventories</b>					
Water stock				268 048	359 043
Consumable stores				14 173 621	12 498 501
				14 441 669	12 857 544
				(401 512)	(395 394)
Provision for impairment of inventory				<b>14 040 157</b>	<b>12 462 150</b>
Inventories are initially measured at cost and subsequently at the lower of cost and the net realisable value.					
Inventories to the value of R 6 117.49 (2018: R 28 545) were scrapped during the year. It was made up of the following damages R 5 546.72 (2018: R 8 119.27) , as well as obsolete R 570.77 ( 2018: R 20 425.92).					
Inventories recognised as an expense during the year				37 843 350	29 950 832
<b>11. Receivables from exchange transactions</b>					
Deposits (Eskom and Nedbank Building)				3 430 190	3 236 990
Sundry debtors				6 114 925	1 598 652
Input VAT on Invoices raised				71 642 223	59 755 971
				<b>81 187 338</b>	<b>64 591 613</b>
<b>12. Receivables from non-exchange transactions</b>					
Fines (Gross balance)				51 194 372	43 305 673
Less: Provision for impairment				(36 858 975)	(30 018 453)
				<b>14 335 397</b>	<b>13 287 220</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>12. Receivables from non-exchange transactions (continued)</b>		
<b>Reconciliation of Fines</b>		
Opening balance	43 305 673	38 046 650
Add: Fines recognised	8 630 900	6 649 903
Less: Fines received	(742 201)	(1 390 880)
	<b>51 194 372</b>	<b>43 305 673</b>
<b>Reconciliation for Provision of Impairment</b>		
Opening Balance	30 018 453	25 930 389
Add: Contribution	6 840 522	4 088 064
	<b>36 858 975</b>	<b>30 018 453</b>
<b>Receivables from non-exchange transactions impaired</b>		
The ageing of amounts past due but not impaired is as follows:		
Opening balance	30 018 453	25 930 389
Add:Contribution for Impairment	6 840 522	4 088 070
<b>Fines Revenue recognised in surplus comprises of:</b>		
Traffic Fines	8 630 900	6 649 903
Other Fines	19 201	30 159

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>13. Consumer debtors</b>		
<b>Gross balances</b>		
Rates	259 854 841	215 657 775
Electricity	155 400 872	160 310 229
Water	378 979 146	324 217 438
Sewerage	276 564 308	233 156 580
Refuse	144 545 426	106 473 412
Other	179 422 854	64 751 338
VAT and sundry services	129 868 772	222 886 152
	<b>1 524 636 219</b>	<b>1 327 452 924</b>
<b>Less: Allowance for impairment</b>		
Rates	(156 756 559)	(131 399 279)
Electricity	(53 663 387)	(13 563 084)
Water	(262 878 368)	(221 778 977)
Sewerage	(203 504 580)	(178 259 185)
Refuse	(95 151 148)	(76 323 070)
Other	(152 296 311)	(43 701 219)
VAT and sundry services	(9 651 452)	(178 737 899)
	<b>(933 901 805)</b>	<b>(843 762 713)</b>
<b>Net balance</b>		
Rates	103 098 282	84 258 496
Electricity	101 737 485	146 747 144
Water	116 100 777	102 438 461
Sewerage	73 059 728	54 897 394
Refuse	49 394 278	30 150 342
Other	27 126 543	21 050 121
VAT and sundry services	120 217 320	44 148 253
	<b>590 734 413</b>	<b>483 690 211</b>
<b>Included in above is receivables from exchange transactions</b>		
Electricity	155 400 872	160 310 229
Water	378 979 146	324 217 438
Sewerage	276 564 308	233 156 580
Refuse	144 545 426	106 473 412
Other	179 422 854	64 751 338
VAT and sundry services	129 868 772	222 886 152
	<b>1 264 781 378</b>	<b>1 111 795 149</b>
<b>Included in above is receivables from non-exchange transactions (taxes and transfers)</b>		
Rates	259 854 841	215 657 775
<b>Total</b>	<b>1 524 636 219</b>	<b>1 327 452 924</b>
<b>Rates</b>		
Current (0 -30 days)	19 907 431	24 426 648
31 - 60 days	9 182 070	6 447 508
61 - 90 days	7 480 889	5 768 311
91 - 120 days	6 952 125	5 060 071
121 - 365 days	10 463 588	4 755 346
> 365 days	205 868 738	169 199 891
	<b>259 854 841</b>	<b>215 657 775</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>13. Consumer debtors (continued)</b>		
<b>Electricity</b>		
Current (0 -30 days)	86 975 032	73 067 086
31 - 60 days	8 252 446	852 401
61 - 90 days	8 596 940	653 793
91 - 120 days	4 978 544	506 539
121 - 365 days	9 873 536	378 265
> 365 days	36 724 375	84 852 145
	<b>155 400 873</b>	<b>160 310 229</b>
<b>Water</b>		
Current (0 -30 days)	27 845 448	21 395 903
31 - 60 days	8 748 026	9 128 760
61 - 90 days	8 201 044	8 697 217
91 - 120 days	8 513 716	8 298 783
121 - 365 days	8 659 966	7 813 874
> 365 days	317 010 946	268 882 901
	<b>378 979 146</b>	<b>324 217 438</b>
<b>Sewerage</b>		
Current (0 -30 days)	8 022 233	14 387 186
31 - 60 days	6 305 275	5 396 722
61 - 90 days	6 047 083	4 890 347
91 - 120 days	5 786 176	4 487 301
121 - 365 days	5 736 478	4 366 589
> 365 days	244 667 063	199 628 415
	<b>276 564 308</b>	<b>233 156 560</b>
<b>Refuse</b>		
Current (0 -30 days)	5 764 856	9 962 354
31 - 60 days	4 470 015	3 449 409
61 - 90 days	4 226 727	3 031 609
91 - 120 days	3 999 560	2 282 395
121 - 365 days	4 274 789	2 186 052
> 365 days	121 809 479	85 561 593
	<b>144 545 426</b>	<b>106 473 412</b>
<b>VAT and Sundries</b>		
Current (0 -30 days)	1 455 772	8 729 355
31 - 60 days	4 605 633	3 134 070
61 - 90 days	4 742 924	3 014 070
91 - 120 days	4 106 424	2 820 126
121 - 365 days	4 779 766	3 631 927
> 365 days	110 178 252	201 556 604
	<b>129 868 771</b>	<b>222 886 152</b>
<b>Other (specify)</b>		
Current (0 -30 days)	(30 602 760)	1 614 870
31 - 60 days	9 916 260	1 299 940
61 - 90 days	7 533 398	1 430 469
91 - 120 days	1 459 166	1 457 057
121 - 365 days	10 755 590	1 186 336
> 365 days	180 361 200	57 762 666
	<b>179 422 854</b>	<b>64 751 338</b>



# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>13. Consumer debtors (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	25 594 569	158 618 572
31 - 60 days	32 664 772	26 726 514
61 - 90 days	29 859 961	24 607 493
91 - 120 days	27 300 548	22 147 115
121 - 365 days	26 998 765	20 565 304
> 365 days	1 086 059 114	907 547 666
	<u>1 228 477 729</u>	<u>1 160 212 664</u>
Less: Allowance for impairment	<u>(835 417 319)</u>	<u>(789 950 498)</u>
	<b>393 060 410</b>	<b>370 262 166</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	89 172 170	56 707 944
31 - 60 days	12 063 401	2 234 877
61 - 90 days	13 281 880	2 166 983
91 - 120 days	7 746 534	1 987 982
121 - 365 days	13 339 801	1 934 196
> 365 days	101 146 374	59 528 716
	<u>236 750 160</u>	<u>124 560 698</u>
Less: Allowance for impairment	<u>(98 484 485)</u>	<u>(53 812 217)</u>
	<b>138 265 675</b>	<b>70 748 481</b>
<b>National and provincial government</b>		
Current (0 -30 days)	4 726 816	(14 638)
31 - 60 days	6 751 552	747 420
61 - 90 days	3 687 163	711 294
91 - 120 days	748 628	777 176
121 - 365 days	14 205 147	1 818 888
> 365 days	29 289 023	38 639 423
	<u>59 408 329</u>	<u>42 679 563</u>
<b>Total</b>		
Current (0 -30 days)	119 493 555	215 311 878
31 - 60 days	51 479 725	29 708 811
61 - 90 days	46 829 004	27 485 770
91 - 120 days	35 795 711	24 912 273
121 - 365 days	54 543 713	24 318 388
> 365 days	1 216 494 510	1 005 715 805
	<u>1 524 636 218</u>	<u>1 327 452 925</u>
Less: Allowance for impairment	<u>(933 901 804)</u>	<u>(843 762 714)</u>
	<b>590 734 414</b>	<b>483 690 211</b>
<b>Less: Allowance for impairment</b>		
Current (0 -30 days)	(4 029 339)	(3 719 077)
31 - 60 days	(10 291 873)	(2 885 405)
61 - 90 days	(8 681 010)	(4 001 899)
91 - 120 days	(15 578 643)	(4 793 812)
121 - 365 days	(12 405 450)	(45 976 881)
> 365 days	(882 915 489)	(782 385 640)
	<u>(933 901 804)</u>	<u>(843 762 714)</u>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(843 762 714)	(665 834 480)
Contributions to allowance	<u>(90 139 090)</u>	<u>(177 928 234)</u>
	<b>(933 901 804)</b>	<b>(843 762 714)</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

2019

2018

### 13. Consumer debtors (continued)

#### Receivable from consumer debtors

Receivables are amounts owing by consumers, and are presented in net impairment losses. The municipality has the credit control policy in place, and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of the constitutional mandate to provide all its residence with basic minimum services, without recourse to an assessment of credit worthiness. The municipality strategy for managing its risk includes encouraging residence to pay for services, through an outreach programme, incentives schemes and to install water demand management devices that control water flow to households, as well as prepaid electricity meters for those consumers who struggle to pay for services. A deposit is also required for new service connections, serves as guarantee.

Fines are followed up by issue of summons. Traffic fines can be contested in court and this can lead to a review amount of the fine.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>14. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	274 488	445 432
Bank balances	4 688 340	9 612 485
Short-term Investments	5 036 373	47 406 953
	<b>9 999 201</b>	<b>57 464 870</b>

The municipality limits its exposure to credit risk by investing with only reputable financial institutions that have a sound credit rating, and with specific guidelines set in accordance with council's approved investment policy. Consequently, the municipality does not consider that there will be any significant exposure to credit risk.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017
Nedbank - 1162663738	3 967 639	-	-	9 612 485	19 732 952	6 539 737
Nedbank - 1162660066	720 702	-	-	-	-	-
FNB - 53140035974	-	3 549 379	13 082 957	-	-	-
FNB - 53140063149	-	6 063 106	6 649 995	-	-	-
<b>Total</b>	<b>4 688 341</b>	<b>9 612 485</b>	<b>19 732 952</b>	<b>9 612 485</b>	<b>19 732 952</b>	<b>6 539 737</b>

### Call Investments

Standard Bank - 68450354/015	1 028 807	964 057
Standard Bank - 68450354/016	811 948	21 631 574
Standard Bank - 68450354/035	41 066	77 670
Standard Bank - 68450354/036	446 926	44 677
Standard Bank - 68450354/037	387 724	18 599 892
Standard Bank - 68450354/038	57 158	1 076 294
Standard Bank - 68450354/039	76 423	1 773 159
Standard Bank - 68450354/040	1 251 398	-
ABSA - 9288456248	65 729	2 866 231
ABSA - 9300506428	500 843	373 397
Nedbank - 037648555441 46	107	-
Nedbank - 037648555441 47	107	-
Nedbank - 037648555441 48	107	-
Nedbank - 037648555441 49	107	-
Nedbank - 037648555441 51	367 924	-
	<b>5 036 374</b>	<b>47 406 951</b>

### Interest Income

Interest on primary account	1 575 047	1 868 016
Interest on investments accounts	3 315 246	2 955 672
	<b>4 890 293</b>	<b>4 823 688</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>15. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	852 924	233 511
- in second to fifth year inclusive	392 517	24 309
<b>Present value of minimum lease payments</b>	<b>1 245 441</b>	<b>257 820</b>
<b>Present value of minimum lease payments due</b>		
- within one year	852 924	233 511
- in second to fifth year inclusive	392 517	24 309
	<b>1 245 441</b>	<b>257 820</b>
Non-current liabilities	392 517	24 309
Current liabilities	852 924	233 511
	<b>1 245 441</b>	<b>257 820</b>
<b>16. 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	1 980 418	8 761
Ingogo Fresh Produce	11 353	11 353
Municipal Water Infrastructure Grant	3 276 300	-
Newcastle library internet project	8 072 072	-
Grant Skills Development	909 541	3 070 800
Cleanest town	823 975	823 975
Environmental Management Framework	502 871	502 871
Neighbourhood Development Partnership	-	12 118 797
Water Services Operating & Masification Subsidies	2 772 038	11 000 000
Osizweni Art Centre	4 742 933	36 920
Osizweni library internet project	40 820	-
Housing Osizweni Sec E	4 266 813	4 266 813
Newcastle Airport	1 815 281	1 815 281
Capacity Building housing	-	8 414 666
Fort Amiel Museum	370 454	192 868
Madadeni Library Internet	1 343 706	-
Corridor Development	131 075	131 075
Carnegie Art Gallery	198 871	279 871
Provincialisation - Libraries	2 180 752	13 642 765
	<b>33 439 273</b>	<b>56 316 816</b>
<b>Movement during the year</b>		
<b>17. Financial liabilities</b>		
<b>At amortised cost</b>		
DBSA loans	157 725 321	168 106 644
ABSA Bank loans	268 678 454	263 947 965
	<b>426 403 775</b>	<b>432 054 609</b>
	<b>426 403 775</b>	<b>432 054 609</b>
<b>Non-current liabilities</b>		
At amortised cost	400 805 603	402 570 627
<b>Current liabilities</b>		
At amortised cost	25 598 172	29 483 981

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

2019

2018

### 18. Defined Benefit Plan

#### Reconciliation of defined benefit plan - 2019

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Change in discount factor	Total
Employee benefits	153 204 815	8 131 688	(7 997 613)	(10 765 537)	14 449 634	157 022 987

#### Reconciliation of defined benefit plan - 2018

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Change in discount factor	Total
Employee benefits	134 384 562	6 876 879	(6 215 831)	5 793 705	12 365 500	153 204 815
Non-current liabilities					148 355 252	145 207 202
Current liabilities					8 667 735	7 997 613
					<b>157 022 987</b>	<b>153 204 815</b>

#### Health Care Benefits

Balance at the beginning of the year	126 069 891	111 427 422
Current service cost	5 540 884	4 644 695
Benefits paid	(4 214 110)	(4 073 667)
Actuarial loss/(gain)	(13 026 852)	3 562 018
Interest	12 197 943	10 509 423
	<b>126 567 756</b>	<b>126 069 891</b>

#### Net expenses recognised in Statement of Financial

##### Performance PEMA

Current service cost	5 540 884	4 644 695
Benefits paid	(4 214 110)	(4 073 667)
Actuarial loss/(gain)	(13 026 852)	3 562 018
Interest	12 197 943	10 509 423
	<b>497 865</b>	<b>14 642 469</b>

#### Long Service Bonus Awards

Balance at the beginning of the year	27 134 922	22 957 138
Current service cost	2 590 804	2 232 184
Benefits paid	(3 783 503)	(2 142 164)
Actuarial loss/(gain)	2 261 315	2 231 687
Interest	2 251 691	1 856 077
	<b>30 455 229</b>	<b>27 134 922</b>

#### Net expenses recognised in Statement of Financial

##### Performance LSA

Current service cost	2 590 804	2 232 184
Benefits paid	(3 783 503)	(2 142 164)
Actuarial loss/(gain)	2 261 315	2 231 687
Interest	2 251 691	1 856 077
	<b>3 320 307</b>	<b>4 177 784</b>

#### Employee benefit cost provision: Assumption

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

2019

2018

### 18. Defined Benefit Plan (continued)

The Municipality offers in-service members and continuation members the opportunity of belonging to one of several medical schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme. The most recent actuarial valuations of the present value of the unfunded defined obligation was carried out as at 30 June 2019 by Arch Actuarial Consulting, a member of the Actuarial Society of South Africa (ASSA). The present value of the defined obligation, and related current service costs and past service costs were measured using the projected units credit method. No other post retirement medical benefits are provided by the municipality.

It was assumed that the municipality's health care arrangements and subsidy policy would remain as outlined in Section 3. Furthermore, it was assumed that the level of benefits receivable, and the contributions payable in respect of such, would remain unchanged, with the exception of allowing for inflationary adjustments. Implicit in this approach is the assumption that current levels of cross-subsidy from in-service members to continuation members within the medical scheme are sustainable, and will continue.

#### Key financial assumptions used

Discount rate	9.38%
Health care cost inflation rate	6.84%
Net effective discount rate	2.38%
Unfunded Accrued Liability	R126 567 756

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

2019

2018

### 18. Defined Benefit Plan (continued)

#### Current-service and interest cost

Year ended 30 June 2019	R5 540 884
Interest cost	R12 197 493
Actuarial (Gain)/Loss recognised in surplus/deficit	(R13 026 852)

#### Long service Bonus Awards

The long service bonus award is a fraction of accumulated leave days that is converted into cash in the year an employee attains the service eligible for an award at a rate of 1/249 of annual salary per day.

#### Key financial assumptions used

Discount rate	8.17%
General salary inflation rate	5.56%
Net effective discount rate	2.47%

The salaries used in the valuation include an assumed increase on 01 July 2019 of 6.4% as per 2019/20 Newcastle Municipality approved budget.

#### Key Demographic Assumptions used

Key Demographic Assumptions used			
Average retirement age	62		
Mortality during employment	SA 85-90		
Withdrawal from services (Sample annual rate)			
	Age	Rate-Female	Rate-Male
	20	9%	9%
	25	8%	8%
	30	6%	6%
	35	5%	5%
	40	5%	5%
	45	4%	4%
	50	3%	3%
	55	0%	0%
	>55	0%	0%

#### Unfunded Accrued Liability

Total value of liabilities	R30 455 229
Value of assets	R0
Unfunded Accrued liabilities	R30 455 229

#### Current service and interest cost

Current cost	R2 590 804
Interest cost	R2 251 691

#### Comparative of Vital Statistics

Number of eligible employees	1325
Average annual salary	R243 550
Salary-weighted average age	44.2
Salary-weighted average past service	12.3

#### Social benefits provision

A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential.

An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph .61.

The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>19. Provision for Rehabilitation of Landfill site</b>		
<b>The movement in the provision is reconciled as follows</b>		
Balance at the beginning of the year	31 292 755	31 217 650
Decrease /Increase in provision	(5 071 037)	75 105
Finance charges recognised	2 622 172	-
	<b>28 843 890</b>	<b>31 292 755</b>
<b>20. Payables from exchange transactions</b>		
Trade payables	439 274 542	362 958 487
Retentions	34 551 748	38 193 658
Output VAT on levies	126 440 810	104 415 650
Unallocated receipts	17 269 766	24 828 423
Stale cheques written back	743 585	743 585
Leave pay provision	32 369 152	32 756 691
Bonus provision	11 992 398	14 079 781
Other payables	73 248 349	43 224 471
	<b>735 890 350</b>	<b>621 200 746</b>
Other payables include the following accounts, Salaries Accrued R44 835 224 (2018: R32 546 813), Grant Invoices R12 255 607 (2018: R2 276 081), Suspense Direct Deposits R10 368 269 (2018: R 13 775 440), Creditor Payments R 5 019 066 (2018: R 6 194 747), GVR not Invoiced R 630 312 (2018: R684 739), Property Registration Costs R 99 349 (2018: R98 249), Surpluses & Shortages R40 522 (2018: R 37 896)		
<b>21. VAT payable</b>		
Tax payables	9 783 001	1 775 605
VAT is accounted for on a payment basis.		
<b>22. Consumer deposits</b>		
Consumers - Electricity	23 249 313	18 595 636
Consumer Guarantees	(137 260)	-
Hall Deposits	337 509	321 670
Housing Deposits	47 712	49 218
	<b>23 497 274</b>	<b>18 966 524</b>
<b>23. Revenue</b>		
Service charges	996 977 844	962 428 082
Rental of facilities and equipment	11 803 212	7 814 644
Other income	2 915 580	2 808 974
Sundry sales	766 901	931 633
Fee income	9 151 834	11 118 686
Interest received	12 907 083	15 420 561
Property rates	287 110 172	253 485 719
Government grants & subsidies	509 802 892	556 662 414
Fines, Penalties and Forfeits	8 650 101	6 680 062
	<b>1 840 085 619</b>	<b>1 817 350 775</b>



# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>23. Revenue (continued)</b>		
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	996 977 844	962 428 082
Rental of facilities and equipment	11 803 212	7 814 644
Other income	2 915 580	2 808 974
Sundry sales	766 901	931 633
Fee income	9 151 834	11 118 686
Interest received - investment	12 907 083	15 420 561
	<b>1 034 522 454</b>	<b>1 000 522 580</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Property rates	287 110 172	253 485 719
<b>Transfer revenue</b>		
Government grants & subsidies	509 802 892	556 662 414
Fines, Penalties and Forfeits	8 650 101	6 680 062
	<b>805 563 165</b>	<b>816 828 195</b>
<b>24. Service charges</b>		
Sale of electricity	623 102 967	649 843 465
Sale of water	176 688 426	156 567 543
Sewerage and sanitation charges	108 895 738	90 848 669
Refuse removal	88 290 713	65 168 405
	<b>996 977 844</b>	<b>962 428 082</b>
<b>25. Rental of facilities and equipment</b>		
<b>Premises</b>		
Municipal housing	10 689 108	6 771 996
Venue hire	959 039	925 678
Rental - HDF	155 065	116 970
	<b>11 803 212</b>	<b>7 814 644</b>
	-	-
<b>26. Fines, Penalties and Forfeits</b>		
Traffic Fines	8 650 101	6 680 062

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>27. Other revenue</b>		
<b>Sundry Revenue</b>		
Insurance Income	1 035 891	362 788
Legal Fees Recoverable	220 176	(1 337)
Lost Books	2 836	4 211
R/D Admin Fee	333 131	111 223
Other Revenue	202 542	284 483
Sundry Revenue	1 121 004	2 047 606
	<b>2 915 580</b>	<b>2 808 974</b>
<b>Other Income</b>		
<b>Sales</b>		
Burial plots	372 847	424 772
Copies	70 474	83 553
Prepaid meters	95 709	194 889
Printing	20 260	43 492
Swimming tickets	207 611	184 927
	<b>766 901</b>	<b>931 633</b>
<b>Fee income</b>		
<b>Fees</b>		
Advertising signs	1 481 545	271 968
Building plans	751 127	768 895
Business letters	779 017	1 130 487
Cemetery	1 176 960	1 309 924
Meter reading	367 253	449 359
Rates clearance certificate	542 982	454 428
Reconnection	3 111 822	2 915 793
Town planning	280 953	432 813
Other	572 272	2 945 334
Tender	87 905	439 685
	<b>9 151 836</b>	<b>11 118 686</b>
<b>28. Interest received</b>		
Bank	4 890 293	4 823 688
Arrear consumer accounts	8 014 550	10 594 239
Other Interest	2 240	2 634
	<b>12 907 083</b>	<b>15 420 561</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>29. Property rates</b>		
<b>Rates received</b>		
Residential	152 619 161	136 465 813
Commercial	129 463 993	117 759 899
State	6 419 610	5 336 507
Specialised Non-market	587 820	533 280
Vacant land	16 352 063	15 655 740
Agriculture	2 471 528	4 187 246
Less: Income forgone	(20 804 003)	(26 452 767)
	<b>287 110 172</b>	<b>253 485 718</b>
<b>Valuations</b>		
Residential	13 331 254 000	13 085 895 000
Commercial	4 381 511 000	5 576 274 000
State	2 113 182 000	979 021 000
Vacant	485 967 200	313 705 500
Specialised non-market	1 556 820 900	325 020 900
Agriculture	1 416 242 000	2 488 811 000
Unratable properties	311 502 000	278 610 000
	<b>23 596 479 100</b>	<b>23 047 337 400</b>

Valuations on land and buildings are performed every 4 years, with an extension of 1 year, approved by MEC: Cogta. 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 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>30. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	341 408 000	318 176 000
Newcastle library internet project	-	188 000
Finance management grant	1 700 000	1 700 000
Skills development grant	5 068 472	612 900
Expanded Public Works programme incentive	3 199 000	4 166 000
Electrification grant	-	9 650 918
Madadeni library internet project	-	188 000
Community Library Service Grant	18 877 657	188 000
Provincialisation- All Libraries	9 621 651	14 733 163
Capacity building Housing	6 823 070	5 195 944
Title Deeds Restoration Grant	1 196 635	-
Sports Maintenance Facilities Grant	9 180	-
Carnegie Art Gallery	265 000	89 832
Fort Amiel Museum	6 414	257 158
Sports and Recreation	644 844	880 739
	<b>388 819 923</b>	<b>356 026 654</b>
<b>Capital grants</b>		
Neighbourhood development partnership	12 118 797	22 648 494
Water services operating & masification subsidies	8 227 962	-
Municipal infrastructure grant	56 232 000	114 604 000
IT Tirelo Bosha Project	1 050 000	850 000
Municipal water infrastructure grant	38 412 497	45 000 000
Newcastle Airport	-	17 533 271
Shared Economic Infrastructure Facility Grant	4 941 714	-
	<b>120 982 970</b>	<b>200 635 765</b>
<b>Conditional and Unconditional</b>		
Included in above are the following grants and subsidies received:		
Unconditional grants received	341 408 000	318 176 000
Conditional grants received	168 394 893	238 486 418
	<b>509 802 893</b>	<b>556 662 418</b>
<b>Municipal Infrastructure Grant</b>		
Current-year receipts	56 232 000	114 604 000
Conditions met - transferred to revenue	(56 232 000)	(114 604 000)
	-	-
<b>Financial Management Grant</b>		
Current-year receipts	1 700 000	1 700 000
Conditions met - transferred to revenue	(1 700 000)	(1 700 000)
	-	-
<b>Skills Development Grant</b>		
Balance unspent at beginning of year	3 070 801	-
Current-year receipts	2 907 222	3 683 701
Conditions met - transferred to revenue	(5 068 478)	(612 900)
	<b>909 545</b>	<b>3 070 801</b>
<b>Expanded Works Programme Incentive</b>		

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>30. Government grants and subsidies (continued)</b>		
Current-year receipts	3 199 000	4 166 000
Conditions met - transferred to revenue	(3 199 000)	(4 166 000)
	-	-
<b>Environmental Management Framework</b>		
Balance unspent at beginning of year	502 871	502 871
<b>Neighbourhood Development Partnership</b>		
Balance unspent at beginning of year	12 118 797	709 291
Current-year receipts	-	34 767 000
Conditions met - transferred to revenue	(12 118 797)	(22 648 494)
Other	-	(709 000)
	-	12 118 797
<b>Electrification Grant</b>		
Balance unspent at beginning of year	-	650 918
Current-year receipts	-	9 000 000
Conditions met	-	(9 650 918)
	-	-
<b>Water Services Operating &amp; Masification Subsidies</b>		
Balance unspent at beginning of year	11 000 000	-
Current-year receipts	-	11 000 000
Conditions met - transferred to revenue	(8 227 962)	-
	2 772 038	11 000 000
<b>I.T - Tirelo Bosha Project</b>		
Balance unspent at beginning of year	-	850 000
Current-year receipts	1 050 000	-
Conditions met - transferred to revenue	(1 050 000)	(850 000)
	-	-
<b>Sports Maintenance Facilities Grant</b>		
Current-year receipts	50 000	-
Conditions met - transferred to revenue	(9 180)	-
	40 820	-
<b>Title Deeds Restoration</b>		
Current-year receipts	5 192 726	-
Conditions met - transferred to revenue	(1 196 635)	-
Other	4 075 980	-
	8 072 071	-
<b>Community Library Service Grant</b>		
Balance unspent at beginning of year	7 467 928	16 278 091
Current-year receipts	12 147 000	5 923 000
Conditions met - transferred to revenue	(18 877 657)	(14 733 163)
Other	606 435	-

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>30. Government grants and subsidies (continued)</b>	<b>1 343 706</b>	<b>7 467 928</b>
<b>Madadeni library internet project</b>		
Current-year receipts	-	188 000
Conditions met - transferred to revenue	-	(188 000)
	-	-
<b>Municipal Water Infrastructure Grant</b>		
Current-year receipts	40 000 000	45 000 000
Conditions met - transferred to revenue	(38 412 497)	(45 000 000)
Other	1 688 797	-
	<b>3 276 300</b>	-
<b>Osizweni Library internet project</b>		
Current-year receipts	-	188 000
Conditions met - transferred to revenue	-	(188 000)
	-	-
<b>Provincialisation- All Libraries</b>		
Balance unspent at beginning of year	6 174 837	6 174 837
Current-year receipts	6 234 000	-
Conditions met - transferred to revenue	(9 621 651)	-
Other	(606 435)	-
	<b>2 180 751</b>	<b>6 174 837</b>
<b>Capacity Building housing</b>		
Balance unspent at beginning of year	8 414 666	6 693 870
Current-year receipts	7 190 396	6 916 740
Conditions met - transferred to revenue	(6 823 070)	(5 195 944)
Other	(4 075 979)	-
	<b>4 706 013</b>	<b>8 414 666</b>
<b>Osizweni arts centre</b>		
Balance unspent at beginning of year	36 920	36 920
<b>Corridor development</b>		
Balance unspent at beginning of year	131 075	131 075
<b>Cleanest town</b>		
Balance unspent at beginning of year	823 975	823 975
<b>Newcastle Library Internet Project</b>		
Current-year receipts	-	188 000
Conditions met - transferred to revenue	-	(188 000)
	-	-

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>30. Government grants and subsidies (continued)</b>		
<b>Sport and Recreation</b>		
Balance unspent at beginning of year	8 761	-
Current-year receipts	2 666 500	889 500
Conditions met - transferred to revenue	(644 844)	(880 739)
Other	(50 000)	-
	<b>1 980 417</b>	<b>8 761</b>
<b>Ingogo Fresh Produce</b>		
Balance unspent at beginning of year	11 353	11 353
<b>Carnegie Art Gallery</b>		
Balance unspent at beginning of year	279 871	169 703
Current-year receipts	184 000	200 000
Conditions met - transferred to revenue	(265 000)	(89 832)
	<b>198 871</b>	<b>279 871</b>
<b>Fort Amiel Museum</b>		
Balance unspent at beginning of year	192 868	300 026
Current-year receipts	184 000	150 000
Conditions met - transferred to revenue	(6 414)	(257 158)
	<b>370 454</b>	<b>192 868</b>
<b>Newcastle Airport</b>		
Balance unspent at beginning of year	1 815 281	272 567
Current-year receipts	-	19 075 985
Conditions met - transferred to revenue	-	(17 533 271)
	<b>1 815 281</b>	<b>1 815 281</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>31. Employee related costs</b>		
Basic	339 339 942	315 679 635
Medical aid - company contributions	19 649 781	18 750 743
UIF	2 501 353	2 509 361
WCA	-	4 347 732
SDL	4 710 732	4 321 591
Bonuses paid	22 829 846	30 009 045
Defined contribution plans	59 485 635	67 548 299
Travel, motor car, accommodation, subsistence and other allowances	7 342 414	4 516 952
Overtime payments	59 374 705	53 816 678
Long-service awards	2 302 437	2 079 420
Transport allowance	24 403 380	23 706 939
Housing benefits and allowances	8 290 174	8 368 817
Group insurance	5 747 810	5 127 686
Bargaining council	149 739	142 903
Night work allowance	1 848 686	1 742 398
Leave pay provision	9 864 260	6 137 119
	<b>567 840 894</b>	<b>548 805 318</b>
<b>Remuneration of the Municipal Manager</b>		
Annual Remuneration	1 342 020	1 497 805
Car Allowance	121 581	126 933
Contributions to UIF, Medical and Pension Funds	169 776	261 054
Acting allowance	86 679	-
	<b>1 720 056</b>	<b>1 885 792</b>
Appointment date: 2018/01/01		
<b>Remuneration of the Chief Finance Officer</b>		
Annual Remuneration	180 292	450 731
Car Allowance	33 333	83 333
Contributions to UIF, Medical and Pension Funds	14 441	30 144
Other	-	34 339
Acting allowance	114 933	-
	<b>342 999</b>	<b>598 547</b>

CFO left on 2018/08/31, there is an acting CFO as at 2019/06/30.



# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>31. Employee related costs (continued)</b>		
<b>Remuneration of Executive Directors &amp; Municipal Manager</b>		
Annual Remuneration	5 368 260	3 784 568
Car Allowance	618 002	334 253
Annual Bonuses	133 695	-
Contributions to UIF, Medical and Pension Funds	701 775	387 448
Acting allowance	252 633	-
Leave Paid/ En-cashed	285 313	282 221
Other	-	253 070
	<b>7 359 678</b>	<b>5 041 560</b>
<b>Community Services</b>		
Annual Remuneration	798 641	-
Car Allowance	199 660	-
Contributions to UIF, Medical and Pension Funds	141 961	-
	<b>1 140 262</b>	<b>-</b>
Appointment date: 2018/08/01		
<b>Development and Planning Services</b>		
Annual Remuneration	280 250	1 053 542
Car Allowance	45 000	140 219
Leave paid/ Leave En-cashed	170 913	-
Contributions to UIF, Medical and Pension Funds	79 644	42 240
Acting allowance	51 021	-
	<b>626 828</b>	<b>1 236 001</b>
Appointment date: 2018/08/01		
<b>Electricity Services</b>		
Annual Remuneration	-	119 877
Contributions to UIF, Medical and Pension Funds	-	149
	<b>-</b>	<b>120 026</b>
<b>Internal Audit</b>		
Annual Remuneration	916 300	931 442
Car Allowance	27 424	115 169
Annual Bonuses	76 358	-
Contributions to UIF, Medical and Pension Funds	177 301	154 585
Leave paid/ leave En-cashed	114 400	-
	<b>1 311 783</b>	<b>1 201 196</b>
Appointment date: 2013/11/01		
<b>Technical</b>		
Annual Remuneration	1 155 678	119 877
Car Allowance	17 234	-
Contributions to UIF, Medical and Pension Funds	13 625	149
	<b>1 186 537</b>	<b>120 026</b>
Appointment date: 2018/08/14		

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>31. Employee related costs (continued)</b>		
<b>Corporate Services</b>		
Annual Remuneration	695 079	-
Car Allowance	173 770	-
Annual Bonuses	57 337	-
Contributions to UIF, Medical and Pension Funds	105 027	-
	<b>1 031 213</b>	<b>-</b>
Appointment date: 2018/09/10		
<b>32. Remuneration of councillors</b>		
Mayor	904 319	859 083
Deputy Mayor	681 584	707 466
Executive Committee Members	4 612 963	3 164 570
Speaker	664 238	707 377
Councillors	16 156 871	16 746 339
Chief Whip	723 596	458 691
MPAC Chairperson	689 600	472 249
Traditional Leaders	48 480	48 480
	<b>24 481 651</b>	<b>23 164 255</b>
<b>Mayor</b>		
Annual remuneration	602 533	631 520
Car allowances	210 579	186 763
Cellphone allowances	40 800	40 800
Contribution to UIF, medical aid and pension	28 399	-
Other	22 008	-
	<b>904 319</b>	<b>859 083</b>
<b>Deputy Mayor</b>		
Annual remuneration	392 969	439 103
Car allowances	150 638	162 527
Cellphone allowances	35 755	40 800
Contribution to UIF, medical aid and pension	58 945	65 035
Other	43 277	-
	<b>681 584</b>	<b>707 465</b>
<b>Speaker</b>		
Annual remuneration	392 969	439 014
Car allowances	150 638	162 527
Cellphone allowances	35 755	40 800
Contribution to UIF, medical aid and pension	58 937	65 035
Other	25 939	-
	<b>664 238</b>	<b>707 376</b>
<b>Chief Whip</b>		
Annual remuneration	420 393	270 184
Car allowances	161 151	103 571
Cellphone allowances	40 800	40 800
Contribution to UIF, medical aid and pension	63 059	44 136
Other	38 193	-
	<b>723 596</b>	<b>458 691</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
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### 32. Remuneration of councillors (continued)

#### In-kind benefits

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

Also, Chief Whip and MPAC Chairperson are provided with offices.

The Executive Mayor is entitled to stay at the mayoral residence owned by Council at no cost. The Executive Mayor has use of a Council owned vehicle for official duties.

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

The Mayor has three full-time bodyguards. The Deputy Mayor and speaker have two full-time bodyguards.

### 33. Depreciation and amortisation

Property, plant and equipment	366 722 970	446 750 849
Intangible assets	2 704 729	2 910 866
	<b>369 427 699</b>	<b>449 661 715</b>

### 34. Impairment of assets

#### Impairments

Fines	6 841 195	4 088 070
Inventory	6 117	35 482
Property, plant and equipment	9 358 457	-
Intangible assets	-	248 639
	<b>16 205 769</b>	<b>4 372 191</b>

The main classes of assets affected by impairment losses are:

Fines debtors, Inventory, and Infrastructure asset and community asset.

Impairment of outstanding traffic fines debtors calculated as the average of uncollected fines.

Inventories which are impaired are goods which are damaged and obsolete.

Refer to note No: 1.11

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

Property, plant and equipment was mainly affected by roads under construction which had its materials damaged and some street lights were also damaged. Further, certain play parks were vandalised which resulted in impairment.

### 35. Finance costs

Non-current borrowings	42 340 887	31 999 938
Provisions and current borrowings	17 538 994	12 543 058
Interest Expense	19 897 299	5 028 020
	<b>79 777 180</b>	<b>49 571 016</b>

### 36. Debt impairment and Bad debts written off

Debt impairment	90 139 090	177 928 234
Indigents written off	72 072 090	28 723 099
Bad debts written off - Incentives	6 408 033	2 289 241
Writes off as per resolutions	11 128 216	-
	<b>179 747 429</b>	<b>208 940 574</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>37. Bulk purchases</b>		
Electricity - Eskom	423 037 391	449 143 199
Water	98 350 881	91 798 314
	<b>521 388 272</b>	<b>540 941 513</b>
<b>38. Contracted services</b>		
Security Services	27 898 873	25 907 783
Consultants and Professional Services	35 995 757	34 208 552
Contractors	52 205 121	73 276 477
	<b>116 099 751</b>	<b>133 392 812</b>
<b>39. General expenses</b>		
Advertising	-	1 324 574
Assessment rates & municipal charges	5 856 044	1 022 373
Auditors remuneration	4 393 123	3 734 763
Bank charges	1 911 992	3 863 454
Legal fees	56 990	315 039
Donations	-	2 345
Entertainment	92 598	401 767
Insurance	6 929 841	5 537 111
Community development and training	6 756 372	8 909 024
IT expenses	11 608 150	8 659 480
Magazines, books and periodicals	278 375	288 325
Medical expenses	43 113	6 790
Motor vehicle expenses	19 763 867	22 607 437
Expenditure on Grants	(1 875)	-
Subsistence and Travelling	2 358 299	2 649 308
Petrol, Oil and Grease	584 278	847 043
Postage and courier	3 867 039	3 201 402
Printing and stationery	2 733 515	3 212 479
Promotions	22 234	40 299
Protective clothing	4 428 884	4 387 277
Repairs and maintenance	81 094 572	106 158 594
Royalties and license fees	159 374	151 201
Membership fees	10 554 003	5 572 972
Telephone and fax	11 465 145	15 074 631
Training	6 413 545	9 644 958
Refuse	4 730 462	4 457 784
Tools	72 752	178 937
Other expenses	30 987 260	13 605 433
Administration expenses	37 471 316	32 449 102
Contribution to post retirement benefits	8 131 688	6 876 879
Material	6 185 201	7 192 998
Loss on sale of assets	-	33 275
Chemicals	294 012	325 084
	<b>269 242 169</b>	<b>272 732 138</b>
<b>40. Fair value adjustment to investment property</b>		
The value of the Investment Property has been reviewed	15 370 000	14 584 000
<b>41. Auditors' remuneration</b>		
Fees	4 044 245	3 575 312
Audit Committee	348 878	159 451
	<b>4 393 123</b>	<b>3 734 763</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>42. Cash generated from operations</b>		
Deficit	(310 456 277)	(438 398 474)
<b>Adjustments for:</b>		
Depreciation and amortisation	369 427 699	449 661 715
Fair value adjustment and Share of deficit	(15 370 000)	(11 917 493)
Share of deficit in associates	35 071 678	4 798 590
Gain on Actuarial Valuation	(10 765 537)	-
Loss on Actuarial Valuations	-	5 793 705
Other non-cash items	(32 573)	-
Impairment of assets	16 205 077	4 372 191
Debt impairment	179 747 429	208 940 574
Movements in provisions	(5 071 037)	17 050 384
Government grants non-cash	(19 757 803)	-
Profit in sale of asset	(3 382 489)	-
<b>Changes in working capital:</b>		
Inventories	(1 578 007)	2 761 378
Receivables from exchange transactions	(16 595 725)	(24 303 940)
Consumer debtors	(197 183 295)	(216 763 435)
Other receivables from non-exchange transactions	(1 048 178)	(1 170 953)
Other financial assets	1 975	2 170
Short term portion finance lease	-	64 657
Other financial liabilities	(3 885 809)	-
Payables from exchange transactions	114 689 604	194 139 425
VAT	8 007 396	(614 920)
Finance lease obligation	619 413	-
Unspent conditional grants and receipts	(22 877 542)	14 760 804
Consumer deposits	4 530 751	4 632 285
Provision for Rehabilitation of Landfill site	(31 292 733)	31 292 755
Short term portion of defined benefit	670 122	1 781 782
Landfill	-	(2 518 504)
	<b>89 674 139</b>	<b>244 364 696</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>43. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Infrastructure assets	79 670 185	69 171 924
• Community assets	2 233 882	2 066 321
	<b>81 904 067</b>	<b>71 238 245</b>
<b>Not yet contracted for and authorised by accounting officer</b>		
• Infrastructure assets	120 559 336	-
<b>Total capital commitments</b>		
Already contracted for but not provided for	81 904 067	71 238 245
Not yet contracted for and authorised by accounting officer	120 559 336	-
	<b>202 463 403</b>	<b>71 238 245</b>
<b>Total commitments</b>		
<b>Total commitments</b>		
Authorised capital expenditure	202 463 403	71 238 245
<b>Operating leases - as lessee (expense)</b>		
<b>Minimum lease payments due</b>		
- within one year	2 246 574	566 940
- in second to fifth year inclusive	10 225 653	578 017
	<b>12 472 227</b>	<b>1 144 957</b>

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

2019

2018

### 44. 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 R300 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: Sigatha 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. The claim that they were engaged as a Project Manager of housing project but the contract was cancelled. Estimated legal costs are R300 000. Awaiting trial date.

#### Plaintiff: Evnic ADZ Construction CC

There is litigation process against the municipality relating to the dispute with ADZ Construction CC, who is seeking damages of R1 245 491 for breach of contract. It alleges that the contract was unlawfully terminated. Estimated legal costs are R250 000. Litigation to proceed.

#### Plaintiff: Matilda Plumbing & Projects CC

There is litigation process against the municipality relating to the dispute with Matilda Plumbing and Projects CC. The estimated claim amounts to R200 000 and the estimated legal costs are R300 000.

#### Plaintiff: SJ Zulu

There is litigation process against the municipality relating to the dispute 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 High court and the estimated cost is R20 million and R40 000 of legal costs.

#### Plaintiff: Rusha/Dylan Peterson

There is a litigation process against the municipality relating to a dispute with Rush Peterson where there are allegations that the municipality was negligent, leaving the drainage water pipes open in a public place that was accessible to children. Her child was injured. The case now is in her son's name Dylan as he is now over 18 years. The claim for damages now is R2 800 000. Estimated Legal costs is R 5 000.

#### 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 now demands R30 000 instead of R1500. EXCO authorised that the matter be handled by COGTA.

#### Plaintiff: Sagewise 1018 cc & Kadbrow Taxi City

The NMPT previously set aside the restrictive condition which was successful on internal appeal. The applicant did not participate in the internal appeal. The estimated costs are R650 000.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

2019

2018

### 44. Contingencies (continued)

#### Plaintiff: Minister of Water Affairs

The Minister of Water Affairs is suing the municipality for services of water rendered for the period 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 R380 000

#### Plaintiff: Small Enterprise Finance Agency SOC Ltd

Summons were issued against the municipality for R 1 100 000 and estimated legal costs of R350 000.

#### Plaintiff: Bigen Service frica PTY(LTD)

The former service provider objected to the municipality appointing another service provider to take over the debt management service. Legal costs of R250 000.

#### Plaintiff: Concust Consulting and Vuka Abaziyo Consulting on NPDPCT projects

Legal opinion on the viability of instruction sent to Concust Consulting by Acting SED. Legal Costs of R15 000.

#### Plaintiff: Miracle Mile Investments

This is a collection matter for outstanding money wherein fraud was perpetrated. The monies outstanding with interest will be in the region of R 1 100 000 . Legal costs of R90 000.

#### Plaintiff: New Integrated Credit Solutions (NICS)

Dispute regarding the non payment of a service provider. Legal costs of R1 200 000.

#### Plaintiff: Scarlet Hibus investments 220 (PTY) LTD

The municipality has been sued an estimated amount of R 42 000 000. Legal costs R 1 538 950.

#### Plaintiff: Nomsa Communal Property Association & 2 Others

The municipality is being for used for an estimated amount of R 1 100 000, Legal costs R420 000.

#### Insurance Claim from Third Parties Public Liability

Alistair Kevin van Wyk for Personal Injuries. Sued amount R6 000 000 and estimated legal costs R5 000.

Diaan and AJ Von Broembsen for property damage due to rain storm. Sued amount is R220 580 and estimated legal fees is R5 000.

Olivia Sizani Nzimande for Motor Vehicle claim. Sued amount R109 550 and estimated legal costs R5 000.

Vusi Mahlangu for Vehicle damage claim. Sued amount R140 835 and legal costs R5 000.

Vishal Heeralal for Personal Injuries claim. Sued amount R1 050 000 and estimated legal costs R5 000.

Nicole Adele Pillay for Motor Vehicle damage claim. Sued amount R101 327 and legal costs of R5 000.

Chemile Diabehlezi Dladla for Personal injury. Sued amount R6 000 000 and legal costs of R5 000.

SK Made/Shories for personal injuries while attending Youth celebration. Sued amount R10 000 000 and legal costs R5 000.

#### Labour reviews and Bargaining Council

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

SR Nzimande, unfair dismissal.

MO Shoji, unfair dismissal

Q Zwane, unfair dismissal

LP Zwane & Others (Traffic wardens), unfair labour practice

B Mkhize & others (Traffic wardens), unfair labour practice

ZB Maduna, unfair labour practice

N Nkutha, unfair labour practice

BE Mswane, unfair labour practice. The estimated legal costs R8 million.



# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>45. Related parties</b>		
<b>Relationships</b>		
Associates	Refer to note 7	
<b>Related party balances</b>		
<b>Amounts included in Trade receivable (Trade Payable) regarding related parties</b>		
Uthukela water	61 896 146	27 007 793
<b>Investment in Associates</b>		
Uthukela Water (Pty) LTD	(35 071 678)	(31 781 069)
<b>Bulk Water</b>		
Uthukela Water (Pty) LTD	95 285 645	78 804 850
Dr Pixley ka Isaka Seme local municipality	164 509	11 537 786
<b>Related party transactions</b>		

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

### 45. Related parties (continued)

#### Remuneration of management

##### Councillors

2019

Name	Basic salary	Pension Contribution	Medical Aid Contributions	Motor Vehicle Allowance	Cellphone and Other Allowances	Housing Allowance	Total
Executive Committee members	3 552 671	331 927	81 386	1 418 022	526 859	288 000	6 198 866
Other Councillors	10 446 248	1 267 373	2 849	3 595 987	2 308 488	661 840	18 282 785
	<b>13 998 919</b>	<b>1 599 300</b>	<b>84 235</b>	<b>5 014 009</b>	<b>2 835 347</b>	<b>949 840</b>	<b>24 481 651</b>

2018

Name	Basic salary	Pension Contribution	Medical Aid Contributions	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	2 227 889	710 920	16 596 993
	<b>12 641 189</b>	<b>1 508 127</b>	<b>89 768</b>	<b>4 981 250</b>	<b>2 939 961</b>	<b>1 003 960</b>	<b>23 164 255</b>

### 46. Prior period errors

#### Property, Plant & Equipment - Infrastructure

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

2019

2018

### 46. Prior period errors (continued)

1. The work in progress relating to Infrastructure was adjusted with the consultant fees which do not result to a Municipal asset	- R 8 504 661.31
2. Review of useful life and change in Estimates of infrastructure assets which were not processed in the prior year	R 242 911 180.61
3. Asset capitalised twice	- R 9 913.40
4. Buildings - Tower Block Depreciation correction after capitalisation of additional costs	- R 83 735.00
5. Costs of Refurbishing Uthukela Assets	-R 21 381 848.44
<b>Total PY Adjustment - Infrastructure</b>	<b>R 212 931 022.46</b>

#### Reclassifications

WIP - Community	R 257 158.00 Nil impact
WP - Infrastructure	- R 257 158.00 Nil impact

The following prior period errors adjustments occurred:

#### Investment Property

Recognition of Municipal Properties that were not in the IP Register	R 69 256 000.00
Removal of properties accounted for in Land and in IP	-R 1 555 000.00
Removal of properties that do not belong to the municipality	-R 6 489 000.00
<b>Total for Investment Property</b>	<b>R 61 212 000.00</b>

#### Heritage Assets

Recognition of an existing assets	R 3 731 365
<b>Total Heritage asset</b>	<b>R 3 731 365</b>

#### Accruals

Clearing of accruals	R 24 461 624
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### 47. Comparative figures

Certain comparative figures have been reclassified.

[Insert reasons for reclassification.]

The effects of the reclassification are as follows:

Income Statement	2018/19 AFS	2017/18 AFS	Diff	Comments
<b>Effect</b>				
Contracted Services moved	133 392 812	90 574 430	42 818 382	Some contracted services were from General Expenses
General Expenses	272 732 138	315 550 521	-42 818 383	

### 48. Risk management

#### Financial risk management

Financial management risk is to determine whether the municipality's financial health is able to meet its short-term commitments or obligations.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

2019

2018

### 48. Risk management (continued)

#### Liquidity risk

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

The municipality recorded the cash ratio of 1% (2018: 7%) in the current year. The entity required to maintain the cash ratio of at least 100% in order to ensure that adequate funds are available to cover its current liabilities.

The municipality also recorded the current ratio of 85% (2018:82%) in the current year. The municipality is required to maintain the current ratio of 150% in order to ensure that current assets are adequate to cover its current liabilities.

The municipality recorded the acid test ratio of 86% (2018: 78%) in the current year. The entity required to maintain the acid test ratio of at least 100% in order to ensure that adequate funds are available to cover its current liabilities.

#### Credit risk

Credit risk is the risk of financial loss to the municipality if its customers or counterpart fail to meet their contractual obligations. Credit risk arise primarily from the municipality's investments, cash and cash equivalents and receivables. The carrying values of these financial assets represents the maximum credit exposure. The maximum exposure as at 30 June 2019 was as follows:

	2019	2018
Cash and cash equivalents (excluding cash on hand)	R 9 999 201	R 57 444 870
Other receivables	R 95 522 736	R 81 187 338
Receivables from consumer debtors	<u>R 590 734 415</u>	<u>R 483 690 211</u>
<b>Total</b>	<b><u>R 696 256 352</u></b>	<b><u>R 586 033 923</u></b>

### 49. Going concern

As at 30 June 2019, the municipality had an accumulated surplus (deficit) of 6 658 758 884 (2018: 6 971 119 275) and that the municipality's current liabilities exceed its assets by 127 430 574 (2018: 135 767 865) -.

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.

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated deficit of R 310 million and the municipality's Cash and Cash Equivalent is R9.9 million which is not sufficient to cover the current liabilities of the municipality. The current assets are less than current liabilities, the collection rate has improved a little bit but there is still a risk that all the outstanding debtors will be collected. Over the next twelve months, the municipality is still committed to ensure that expenditure is kept within the funded and approved budget.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality and that the Provincial and National government has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

### 50. Events after the reporting date

In October 2019 the Municipality was informed that one of its biggest customers, South African Calcium Carbide, was liquidated. At the time when the company was liquidated it was owing the Municipality R54.4 million. This process has resulted in the municipality impairing the debt which was being owed by the consumer.

In August 2019, the Department of Sports and Recreation withdrew issued a correspondence advising the municipality that the funding of the construction of Phelindaba Fitness Centre projects has been withdrawn, due to the fact that the municipality was unable to meet the conditions of the grant. The municipality has been ordered by the department to refund an amount of R2,616,500 which was transferred to the municipality during the year.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>51. Unauthorised expenditure</b>		
Opening balance as previously reported	(918 010 182)	(793 827 005)
<b>Opening balance as restated</b>	<b>(918 010 182)</b>	<b>(793 827 005)</b>
Add: Unauthorised Expenditure - Current year	(47 430)	(124 183 177)
<b>Closing balance</b>	<b>(918 057 522)</b>	<b>(918 010 182)</b>

The municipality incurred unauthorised expenditure of R47 430 (2018:R124 183 177) during the financial year R47 340 due to misclassification of expenditure.

## 52. Fruitless and wasteful expenditure

Opening balance as previously reported	9 974 342	1 501 467
<b>Opening balance as restated</b>	<b>9 974 342</b>	<b>1 501 467</b>
Eskom overdue interest	17 529 920	3 451 269
SARS late payments	2 527 408	3 936 514
DBSA	884 745	584 101
Ithala Bank	2 180	1 592
Department of Labour-Workmans Comp Interest charged	-	499 399
Impairment- Esdidini Road	6 609 206	-
Telkom	93 105	-
Byteapex	1 712	-
Unauthorised Debit Orders	199 350	-
Natal Joint Municipal Pension Fund	25 198	-
Delca Consulting	765 860	-
<b>Closing balance</b>	<b>38 613 026</b>	<b>9 974 342</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>53. Irregular expenditure</b>		
Opening balance	283 338 197	187 643 508
Add: Irregular Expenditure - current year	86 886 867	95 694 689
	-	-
<b>Closing balance</b>	<b>370 225 064</b>	<b>283 338 197</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>53. Irregular expenditure (continued)</b>		
<b>Irregular Expenditure was made out of the following</b>		
	<b>Payments made above contract value</b>	
BLAAUWBOSCH BULK WATER PROJECT		
NEWCASTLE EAST WATER SUPPLY EXTENSION - Bee and Tee	3 008 785	-
SOUL CITY WATER EXTENSION PHASE2 (A001-2015/2016)	2 621 151	-
NEWCASTLE EAST WATER SUPPLY EXTENSION - Pilcon Trading	104 252	-
CONSTRUCTION OF BULK SEWERS AND PUMPSTATION (UGU -07-163-2012)		
	<b>5 734 188</b>	<b>-</b>
<b>Payments made to contracts where SCM procedures were not followed</b>		
Bamazl Trading Enterprise cc	22 000	-
Brett Purdon Attorneys	2 129 030	-
Bangs Trading and Projects	763 820	-
Byteapex IT cc	218 840	-
Castle Construction Hire	54 111	-
Concost Quality Surveyors	329 113	-
Easyday	3 155 923	-
EGM Izinhlelo	156 812	-
Egxenl Engineering	5 700 118	-
Eskom Holdings	1 606 251	-
FBL Trading Enterprise	192 716	-
Fidelity Security Services	26 893	-
First National Battery	611 251	-
First Technology	87 973	-
Flint Rail Projects	330 916	-
Global Payment Technologies	3 220	-
Impumeleo Consulting Engineering	1 446 346	-
Inside Data South (Pty) LTD	1 064 538	-
Juta and Company LTD	2 856	-
Itec Tiyeende (Pty) Ltd	6 013	-
Kinno's Marquee and Tarpaulin Hire cc	403 195	-
KFC Pipes & Fittings & KFC Engineering	902 840	-
Klus Civils	2 114 447	-
Kuntwela Ezansi Ventures	831 653	-
Kusile Engineering cc	694 995	-

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>53. Irregular expenditure (continued)</b>		
Legent International and Projects	105 570	-
Lexis Nexis	3 759	-
LH Martinussen Denver a division of actom (Pty) Ltd	487 510	-
Logo Graphics cc	2 013	-
Madudla Contractors	1 859 685	-
Magubane Plant and Contractors	1 342 810	-
Mbovula Trading/NBN Civils	2 745 651	-
Moralla Shopping Complex	139 237	-
Msalela Transport	971 142	-
Mtec	2 838 837	-
Murray and Dickson Construction (Pty) Ltd	12 606 571	-
Ncolisa Trading Pty LTD	325 468	-
Newcastle Master Lock	1 553	-
Ngidi and Company Inc	64 800	-
Njabulo Binda Trading and Projects	117 000	-
Njengamanje Trading cc	2 935 192	-
Nkosenathi Construction & Projects	1 182 472	-
NN land surveys and mapping	5 543	-
Nobongile Business Enterprise	28 665	-
Northern Cleaning Services	7 479	-
Ongoti Risk Management	258 520	-
Osman's Racing wheel and tyre T/A Tiger wheel and tyre	2 196 338	-
Paper House	3 152	-
Phumuza Facilities Management	193 200	-
Rosenbauer South Africa	5 305	-
Sandman Sizazonke	293 288	-
Shantis Electrical	3 743 825	-
Siyeza - Sisendileleni	286 200	-
Sizisa Ukhanyo 471 Trading	872 950	-
Sizela Transport	16 677 521	-
Smenywa Trading Projects	188 700	-
Somkhanda Plant Hire	1 662 906	-
Snababa Trading Enterprise	108 000	-
Snakho Projects	157 000	-
SS Masondo Attorneys	573 552	-
Sukuma Security Services	1 478	-
Supreme Range General Supplier	41 330	-
Sysman Vunumphelo	32 981	-
Tellumat (Pty) Ltd	256 638	-
Tswakelo (Pty) Ltd	162 150	-
Umfazi Safety (Pty) Ltd	5 950	-



# Newcastle Municipality

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## Notes to the Annual Financial Statements

	2019	2018
<b>53. Irregular expenditure (continued)</b>		
UthlomiKhonto Investments (Pty) Ltd	29 850	-
Zatobrite (Pty) Ltd T/A Fuze Solutions	1 817 160	-
Zenawe	780 239	-
Zenzo Trading and Projects	108 770	-
	<b>81 083 830</b>	-
<b>Awards to employees in service of the state</b>		
Banothile Civil Engineering	23 500	-
Dlongwane General Trading	18 502	-
Munkky Trading	26 850	-
	<b>68 852</b>	-
<b>54. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Current year subscription / fee	5 839 840	5 283 317
Amount paid - current year	(3 006 362)	(5 283 317)
	<b>2 833 478</b>	-
<b>Audit fees</b>		
Opening balance	12 824	-
Current year subscription / fee	4 044 245	3 577 235
Amount paid - current year	(3 564 398)	(3 564 411)
Amount paid - previous years	(12 824)	-
	<b>479 847</b>	<b>12 824</b>
<b>PAYE and UIF</b>		
Current year subscription / fee	93 363 467	80 268 828
Amount paid - current year	(75 059 844)	(80 268 828)
	<b>18 303 623</b>	-

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>54. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>Pension and Medical Aid Deductions</b>		
Current year subscription / fee	126 186 459	111 640 778
Amount paid - current year	(115 634 236)	(111 640 778)
	<b>10 552 223</b>	<b>-</b>

### VAT

VAT payable	9 783 001	1 775 605
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### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2019:

30 June 2019	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor MF Zikhali	734	2 799	3 533
Councillor MS Mlangeni	2 573	15 055	17 628
	<b>3 307</b>	<b>17 854</b>	<b>21 161</b>

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

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

### 55. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	426 403 775	432 054 608
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Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

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### 56. 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.

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

#### Deviations

Section 16	69 781	11 443
Section 17	344 394	291 060
Section 36	951 690	1 010 178
	<b>1 365 865</b>	<b>1 312 681</b>

### 57. Water distribution losses

Input Volume (KL)	31 739 319	29 411 430
Water Losses (KL)	14 788 167	14 351 352
Water Losses (%)	46.6%	48.8%
Bulk Tariff (R/KL)	3.05	3.17
Water loss ( Rands)	R45 103 909	R45 493 786

#### 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 customers 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 meters inaccuracies due to old meter and intermittent water supply were also reason for the losses. Human error from manual and capturing of data resulted in a meter reading errors, data handling and accounting errors.

### 58. Electricity distribution losses

Purchases (KWH)	534 914 635	624 146 150
Less: Sales	506 062 833	598 153 549
Loss of units (kwh)	28 851 805	25 992 601
Loss of units (%)	5.39%	4.16%
Estimated cost per unit - Cents	R0.65	R0.59
Estimated cost of loss in (R)	R18 753 673	R15 335 635

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

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### 58. Electricity distribution losses (continued)

#### 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 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.