Ugu District Municipality

Ugu District Municipality
(Registration number DC21)
Financial statements
for the year ended 30 June 2016

# General Information

| | |
|---|---|
| **Legal form of entity** | MFMA |
| **Nature of business and principal activities** | District Municipality |
| **Grading of local authority** | Grade 5 |
| **Chief Finance Officer (CFO)** | Ms SP Ngilande |
| **Accounting Officer** | Mr DD Naidoo |
| **Registered office** | 28 Connor Street<br>Port Shepstone<br>KwaZulu-Natal<br>4240 |
| **Postal address** | P O Box 33<br>Port Shepstone<br>KwaZulu-Natal<br>4240 |
| **Bankers** | ABSA Bank |
| **Auditors** | Auditor General<br>Registered Auditors |

# Index

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



**Abbreviations**

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

# Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

The accounting officer certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's internal auditors.

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

The financial statements set out on pages 5 to 97, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed on its behalf by:

**Mr DD Naidoo**
**Accounting Officer**

# Audit Committee Report

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

**Audit committee members and attendance**

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

**Audit committee responsibility**

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) to (e) of the MFMA and Treasury Regulation 3.1.

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

**The effectiveness of internal control**

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King III Report on Corporate Governance requirements, Internal Audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the financial statements, and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

The quality of in year management and monthly/quarterly reports submitted in terms of the MFMA and the Division of Revenue Act.

The audit committee is satisfied with the content and quality of monthly and quarterly reports prepared by the management of the municipality during the year under review.

**Evaluation of financial statements**

The audit committee has:

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

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

**Internal audit**

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

**Auditor-General of South Africa**

The audit committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

**Chairperson of the Audit Committee**

**Date:** ______________________

# Independent Auditor's Report

The Independent Auditor's Report submits his report for the year ended 30 June 2016.

## Statement of Financial Position as at 30 June 2016

| Figures in Rand | Note(s) | 2016 | 2015 Restated* |
|---|---|---|---|
| **Assets** | | | |
| Current Assets | | | |
| Inventories | 3 | 11 524 055 | 14 426 468 |
| Current portion of long-term receivables | 4 | 11 594 | 51 855 |
| Operating lease asset | 5 | 46 289 | 28 410 |
| Receivables from non-exchange transactions | 6 | 27 115 383 | 50 504 488 |
| VAT receivable | 7 | 36 466 126 | - |
| Receivables from exchange transactions | 8 | 95 600 737 | 95 058 018 |
| Cash and cash equivalents | 9 | 258 763 006 | 259 074 427 |
| | | **429 527 190** | **419 143 666** |
| Non-Current Assets | | | |
| Investment property | 10 | 29 500 000 | 29 403 251 |
| Property, plant and equipment | 11 | 3 965 745 161 | 3 796 351 159 |
| Intangible assets | 12 | 11 460 699 | 8 933 645 |
| Investments | 13 | 200 | 200 |
| Long-term receivables | 4 | 101 365 | 270 644 |
| | | **4 006 807 425** | **3 834 958 899** |
| **Total Assets** | | **4 436 334 615** | **4 254 102 565** |
| **Liabilities** | | | |
| Current Liabilities | | | |
| Current portion of long-term liabilities | 14 | 19 727 697 | 18 915 505 |
| Finance lease obligation | 15 | - | 3 063 785 |
| Operating lease liability | 5 | 55 585 | 50 643 |
| Payables from exchange transactions | 16 | 176 397 203 | 153 464 565 |
| VAT payable | 53 | - | 855 061 |
| Consumer deposits | 17 | 20 606 607 | 20 034 005 |
| Unspent government grants and receipts | 18 | 8 729 920 | 21 365 817 |
| Provisions | 19 | 25 304 460 | 19 761 585 |
| Bank overdraft | 9 | 2 306 145 | 26 152 189 |
| | | **253 127 617** | **263 663 155** |
| Non-Current Liabilities | | | |
| Long-term liabilities | 14 | 125 825 541 | 144 531 365 |
| Retirement benefit liabilities | 20 | 15 571 785 | 15 250 105 |
| Other long-term employee benefits | 21 | 14 010 102 | 13 234 057 |
| | | **155 407 428** | **173 015 527** |
| **Total Liabilities** | | **408 535 045** | **436 678 682** |
| **Net Assets** | | **4 027 799 570** | **3 817 423 883** |
| Accumulated surplus | | 4 027 799 570 | 3 817 423 883 |

* See Note 45

## Statement of Financial Performance

| Figures in Rand | Note(s) | 2016 | 2015 Restated* |
|---|---|---|---|
| **Revenue** | | | |
| Service charges | 22 | 316 071 962 | 295 020 086 |
| Rental of facilities and equipment | 23 | 1 089 006 | 2 430 265 |
| Other income | 24 | 16 097 754 | 14 980 970 |
| Interest received - investment | 25 | 29 874 150 | 18 995 968 |
| Government grants & subsidies | 26 | 733 381 765 | 722 408 093 |
| **Total revenue** | | **1 096 514 637** | **1 053 835 382** |
| **Expenditure** | | | |
| Employee related costs | 28 | 294 815 068 | 267 421 308 |
| Remuneration of councillors | 29 | 8 957 246 | 8 689 921 |
| Depreciation and amortisation | 30 | 191 919 289 | 193 673 040 |
| Impairment loss/ Reversal of impairments | 31 | 60 148 370 | 161 924 814 |
| Finance costs | 32 | 13 556 084 | 12 812 707 |
| Lease rentals on operating lease | | 2 050 086 | 1 877 034 |
| Debt Impairment | | 172 017 | - |
| Repairs and maintenance | | 63 008 980 | 52 560 496 |
| Bulk purchases | 33 | 66 091 136 | 52 626 127 |
| Contracted services | 34 | 22 704 656 | 19 827 306 |
| Transfers and Subsidies | 35 | 37 172 994 | 45 521 982 |
| General Expenses | 36 | 126 286 765 | 110 024 596 |
| **Total expenditure** | | **886 882 691** | **926 959 331** |
| **Operating surplus** | | **209 631 946** | **126 876 051** |
| Gain on disposal of assets and liabilities | | 646 992 | 883 418 |
| Fair value adjustments | 37 | 96 749 | (4 200 000) |
| | | **743 741** | **(3 316 582)** |
| **Surplus for the year** | | **210 375 687** | **123 559 469** |

* See Note 45

# Ugu District Municipality

(Registration number DC21)
Financial Statements for the year ended 30 June 2016

## Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
|---|---|---|
| **Balance at 01 July 2014** | **3 693 864 414** | **3 693 864 414** |
| Changes in net assets | | |
| Surplus for the year | 123 559 469 | 123 559 469 |
| Total changes | 123 559 469 | 123 559 469 |
| Opening balance as previously reported | 3 591 355 938 | 3 591 355 938 |
| Adjustments | | |
| Correction of errors (Note 45) | 226 067 945 | 226 067 945 |
| **Restated* Balance at 01 July 2015 as restated*** | **3 817 423 883** | **3 817 423 883** |
| Changes in net assets | | |
| Surplus for the year | 210 375 687 | 210 375 687 |
| Total changes | 210 375 687 | 210 375 687 |
| **Balance at 30 June 2016** | **4 027 799 570** | **4 027 799 570** |

Note(s)

* See Note 45

# Cash Flow Statement

| Figures in Rand | Note(s) | 2016 | 2015 Restated* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Sale of goods and services | | 319 339 593 | 287 304 854 |
| Grants | | 747 241 150 | 706 253 174 |
| Interest income | | 29 874 150 | 18 995 968 |
| | | 1 096 454 893 | 1 012 553 996 |
| **Payments** | | | |
| Employee costs | | (296 976 886) | (276 111 229) |
| Finance costs | | (13 556 084) | (12 812 707) |
| Other payments | | (378 163 231) | (303 433 886) |
| | | (688 696 201) | (592 357 822) |
| **Net cash flows from operating activities** | 39 | **407 758 692** | **420 196 174** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 11 | (359 454 754) | (322 240 016) |
| Proceeds from sale of property, plant and equipment | 11 | 874 497 | 885 269 |
| Purchase of other intangible assets | 12 | (4 895 935) | (2 479 944) |
| Purchase of financial assets | | - | (100) |
| Decrease / (Increase) in current portion of long-term receivables | | 40 261 | 19 382 |
| Decrease/ (Increase) in long-term receivables | | 169 279 | (263 240) |
| **Net cash flows from investing activities** | | **(363 266 652)** | **(324 117 844)** |
| **Cash flows from financing activities** | | | |
| Repayment of other financial liabilities | | (17 893 632) | (18 759 657) |
| Finance lease payments | | (3 063 785) | (3 504 496) |
| **Net cash flows from financing activities** | | **(20 957 417)** | **(20 483 989)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **23 534 623** | **75 594 341** |
| Cash and cash equivalents at the beginning of the year | | 232 922 238 | 157 327 897 |
| **Cash and cash equivalents at the end of the year** | 9 | **256 456 861** | **232 922 238** |

* See Note 45

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Performance** | | | | | | |
| **Revenue** | | | | | | |
| **Revenue from exchange transactions** | | | | | | |
| Service charges | 407 861 122 | 55 050 383 | **462 911 505** | 316 071 962 | **(146 839 543)** | 56 |
| Rental of facilities and equipment | 1 484 607 | 316 518 | **1 801 125** | 1 089 006 | **(712 119)** | 56 |
| Other income | 7 861 935 | 18 495 822 | **26 357 757** | 16 097 754 | **(10 260 003)** | 56 |
| Interest received - investment | 9 102 126 | 12 096 617 | **21 198 743** | 29 874 150 | **8 675 407** | 56 |
| **Total revenue from exchange transactions** | **426 309 790** | **85 959 340** | **512 269 130** | **363 132 872** | **(149 136 258)** | |
| **Revenue from non-exchange transactions** | | | | | | |
| **Transfer revenue** | | | | | | |
| Government grants & subsidies | 736 542 234 | 9 615 744 | **746 157 978** | 733 381 765 | **(12 776 213)** | 56 |
| **Total revenue** | **1 162 852 024** | **95 575 084** | **1 258 427 108** | **1 096 514 637** | **(161 912 471)** | |
| **Expenditure** | | | | | | |
| Personnel | (290 323 933) | (14 560 093) | **(304 884 026)** | (294 815 068) | **10 068 958** | 56 |
| Remuneration of councillors | (9 916 190) | (1 150 877) | **(11 067 067)** | (8 957 246) | **2 109 821** | 56 |
| Depreciation and amortisation | (70 284 811) | (46 036 265) | **(116 321 076)** | (191 919 289) | **(75 598 213)** | 56 |
| Impairment loss/ Reversal of impairments | (23 071 655) | 2 500 | **(23 069 155)** | (60 148 370) | **(37 079 215)** | 56 |
| Finance costs | (18 951 934) | 5 671 | **(18 946 263)** | (13 556 084) | **5 390 179** | 56 |
| Lease rentals on operating lease | (1 000 000) | 50 000 | **(950 000)** | (2 050 086) | **(1 100 086)** | 56 |
| Bad debts written off | - | - | **-** | (172 017) | **(172 017)** | 56 |
| Repairs and maintenance | (58 496 974) | (5 134 441) | **(63 631 415)** | (63 008 980) | **622 435** | 56 |
| Bulk purchases | (69 255 000) | - | **(69 255 000)** | (66 091 136) | **3 163 864** | 56 |
| Contracted Services | (22 337 123) | (3 223 440) | **(25 560 563)** | (22 704 656) | **2 855 907** | 56 |
| Transfers and Subsidies | (95 189 882) | (3 416 431) | **(98 606 313)** | (37 172 994) | **61 433 319** | 56 |
| General Expenses | (145 760 837) | (3 659 611) | **(149 420 448)** | (126 286 765) | **23 133 683** | 56 |
| **Total expenditure** | **(804 588 339)** | **(77 122 987)** | **(881 711 326)** | **(886 882 691)** | **(5 171 365)** | |
| **Operating surplus** | **358 263 685** | **18 452 097** | **376 715 782** | **209 631 946** | **(167 083 836)** | |
| Gain on disposal of assets and liabilities | - | - | **-** | 646 992 | **646 992** | 56 |
| Fair value adjustments | - | - | **-** | 96 749 | **96 749** | 56 |
| | **-** | **-** | **-** | **743 741** | **743 741** | |
| **Surplus before taxation** | **358 263 685** | **18 452 097** | **376 715 782** | **210 375 687** | **(166 340 095)** | |
| **Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement** | **358 263 685** | **18 452 097** | **376 715 782** | **210 375 687** | **(166 340 095)** | |

**Reconciliation**

# Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Position** | | | | | | |
| **Assets** | | | | | | |
| **Current Assets** | | | | | | |
| Inventories | 9 052 932 | 15 147 791 | **24 200 723** | 11 524 055 | **(12 676 668)** | |
| Current portion of Long-term Receivables | 57 461 | (3 013) | **54 448** | 11 594 | **(42 854)** | |
| Operating lease asset | - | - | **-** | 46 289 | **46 289** | |
| Receivables from non-exchange transactions | 5 372 678 | 48 165 596 | **53 538 274** | 27 115 383 | **(26 422 891)** | |
| VAT receivable | - | - | **-** | 36 466 126 | **36 466 126** | |
| Receivables from exchange transactions | 75 878 189 | 25 196 687 | **101 074 876** | 95 600 737 | **(5 474 139)** | |
| Cash and cash equivalents | 234 570 635 | 33 180 746 | **267 751 381** | 258 763 006 | **(8 988 375)** | |
| | **324 931 895** | **121 687 807** | **446 619 702** | **429 527 190** | **(17 092 512)** | |
| **Non-Current Assets** | | | | | | |
| Investment property | 22 500 000 | 8 373 414 | **30 873 414** | 29 500 000 | **(1 373 414)** | |
| Property, plant and equipment | 2 579 253 144 | 1 190 904 176 | **3 770 157 320** | 3 965 745 161 | **195 587 841** | |
| Intangible assets | 12 508 519 | (3 078 595) | **9 429 924** | 11 460 699 | **2 030 775** | |
| Investments | - | - | **-** | 200 | **200** | |
| Long-term receivables | 136 078 | 148 098 | **284 176** | 101 365 | **(182 811)** | |
| | **2 614 397 741** | **1 196 347 093** | **3 810 744 834** | **4 006 807 425** | **196 062 591** | |
| **Total Assets** | **2 939 329 636** | **1 318 034 900** | **4 257 364 536** | **4 436 334 615** | **178 970 079** | |
| **Liabilities** | | | | | | |
| **Current Liabilities** | | | | | | |
| Current portion of long-term liabilities | 17 815 991 | 5 262 264 | **23 078 255** | 19 727 697 | **(3 350 558)** | |
| Operating lease liability | - | - | **-** | 55 585 | **55 585** | |
| Payables from exchange transactions | 87 318 742 | 92 480 860 | **179 799 602** | 176 397 203 | **(3 402 399)** | |
| Consumer deposits | 20 559 365 | 476 340 | **21 035 705** | 20 606 607 | **(429 098)** | |
| Unspent conditional grants and receipts | - | - | **-** | 8 729 920 | **8 729 920** | |
| Provisions | 2 116 481 | 19 165 732 | **21 282 213** | 25 304 460 | **4 022 247** | |
| Bank overdraft | - | - | **-** | 2 306 145 | **2 306 145** | |
| | **127 810 579** | **117 385 196** | **245 195 775** | **253 127 617** | **7 931 842** | |
| **Non-Current Liabilities** | | | | | | |
| Long-term liabilities | 131 323 325 | 20 434 608 | **151 757 933** | 125 825 541 | **(25 932 392)** | |
| Retirement benefit liabilities | - | - | **-** | 15 571 785 | **15 571 785** | |
| Other long-term employee benefits | 31 435 616 | (1 527 246) | **29 908 370** | 14 010 102 | **(15 898 268)** | |
| | **162 758 941** | **18 907 362** | **181 666 303** | **155 407 428** | **(26 258 875)** | |
| **Total Liabilities** | **290 569 520** | **136 292 558** | **426 862 078** | **408 535 045** | **(18 327 033)** | |
| **Net Assets** | **2 648 760 116** | **1 181 742 342** | **3 830 502 458** | **4 027 799 570** | **197 297 112** | |

# Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Net Assets** | | | | | | |
| **Net Assets Attributable to Owners of Controlling Entity** | | | | | | |
| **Reserves** | | | | | | |
| Accumulated surplus | 2 648 760 116 | 1 181 742 342 | **3 830 502 458** | 4 027 799 570 | **197 297 112** | |

# Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Cash Flow Statement** | | | | | | |
| **Cash flows from operating activities** | | | | | | |
| **Receipts** | | | | | | |
| Sale of goods and services | 362 970 667 | 69 578 566 | **432 549 233** | 319 339 593 | **(113 209 640)** | |
| Grants | 737 222 234 | 5 285 744 | **742 507 978** | 747 241 150 | **4 733 172** | |
| Interest income | 7 918 850 | 9 954 924 | **17 873 774** | 29 874 150 | **12 000 376** | |
| | **1 108 111 751** | **84 819 234** | **1 192 930 985** | **1 096 454 893** | **(96 476 092)** | |
| **Payments** | | | | | | |
| Employee costs | (300 240 123) | (15 710 970) | **(315 951 093)** | (296 976 886) | **18 974 207** | |
| Finance costs | (18 951 934) | 5 671 | **(18 946 263)** | (13 556 084) | **5 390 179** | |
| Other payments | (389 285 163) | (18 904 644) | **(408 189 807)** | (378 163 231) | **30 026 576** | |
| | **(708 477 220)** | **(34 609 943)** | **(743 087 163)** | **(688 696 201)** | **54 390 962** | |
| **Net cash flows from operating activities** | **399 634 531** | **50 209 291** | **449 843 822** | **407 758 692** | **(42 085 130)** | |
| **Cash flows from investing activities** | | | | | | |
| Purchase of property, plant and equipment | (337 894 499) | (72 972 719) | **(410 867 218)** | (359 454 754) | **51 412 464** | |
| Proceeds from sale of property, plant and equipment | - | - | **-** | 874 497 | **874 497** | |
| Purchase of other intangible assets | - | - | **-** | (4 895 935) | **(4 895 935)** | |
| Decrease/(Increase) in current portion long-term receivables | - | - | **-** | 40 261 | **40 261** | |
| Decrease/(Increase) in long-term receivables | - | - | **-** | 169 279 | **169 279** | |
| **Net cash flows from investing activities** | **(337 894 499)** | **(72 972 719)** | **(410 867 218)** | **(363 266 652)** | **47 600 566** | |
| **Cash flows from financing activities** | | | | | | |
| Increase (decrease) in consumer deposits | 979 017 | - | **979 017** | - | **(979 017)** | |
| Repayment of other financial liabilities | (18 753 675) | - | **(18 753 675)** | (20 957 417) | **(2 203 742)** | |
| **Net cash flows from financing activities** | **(17 774 658)** | **-** | **(17 774 658)** | **(20 957 417)** | **(3 182 759)** | |
| Net increase/(decrease) in cash and cash equivalents | 43 965 374 | (22 763 428) | **21 201 946** | 23 534 623 | **2 332 677** | |
| Cash and cash equivalents at the beginning of the year | 190 605 261 | 55 944 173 | **246 549 434** | 232 922 238 | **(13 627 196)** | |
| **Cash and cash equivalents at the end of the year** | **234 570 635** | **33 180 745** | **267 751 380** | **256 456 861** | **(11 294 519)** | |
| **Reconciliation** | | | | | | |

## Appropriation Statement

Figures in Rand

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | | | | | |
| **Financial Performance** | | | | | | | | | | | |
| Service charges | 407 861 122 | 55 050 383 | 462 911 505 | - | | 462 911 505 | 316 071 962 | | (146 839 543) | 68 % | 77 % |
| Investment revenue | 9 102 126 | 12 096 617 | 21 198 743 | - | | 21 198 743 | 29 874 150 | | 8 675 407 | 141 % | 328 % |
| Transfers recognised - operational | 381 543 814 | (1 322 579) | 380 221 235 | - | | 380 221 235 | 362 911 650 | | (17 309 585) | 95 % | 95 % |
| Other own revenue | 9 346 542 | 18 812 340 | 28 158 882 | - | | 28 158 882 | 17 930 501 | | (10 228 381) | 64 % | 192 % |
| **Total revenue (excluding capital transfers and contributions)** | **807 853 604** | **84 636 761** | **892 490 365** | **-** | | **892 490 365** | **726 788 263** | | **(165 702 102)** | **81 %** | **90 %** |
| Employee costs | (290 323 933) | (14 560 093) | (304 884 026) | - | - | (304 884 026) | (294 815 068) | - | 10 068 958 | 97 % | 102 % |
| Remuneration of councillors | (9 916 190) | (1 150 877) | (11 067 067) | - | - | (11 067 067) | (8 957 246) | - | 2 109 821 | 81 % | 90 % |
| Debt impairment | - | - | - | | | - | (172 017) | - | (172 017) | (100)% | (100)% |
| Depreciation and asset impairment | (93 356 466) | (46 033 765) | (139 390 231) | | | (139 390 231) | (252 067 659) | - | (112 677 428) | 181 % | 270 % |
| Finance charges | (18 951 934) | 5 671 | (18 946 263) | - | - | (18 946 263) | (13 556 084) | - | 5 390 179 | 72 % | 72 % |
| Materials and bulk purchases | (69 255 000) | - | (69 255 000) | - | - | (69 255 000) | (66 091 136) | - | 3 163 864 | 95 % | 95 % |
| Transfers and grants | (95 189 882) | (3 416 431) | (98 606 313) | - | - | (98 606 313) | (37 172 994) | - | 61 433 319 | 38 % | 39 % |
| Other expenditure | (227 594 934) | (11 967 492) | (239 562 426) | - | - | (239 562 426) | (214 050 487) | - | 25 511 939 | 89 % | 94 % |
| **Total expenditure** | **(804 588 339)** | **(77 122 987)** | **(881 711 326)** | **-** | **-** | **(881 711 326)** | **(886 882 691)** | **-** | **(5 171 365)** | **101 %** | **110 %** |
| **Surplus/(Deficit)** | **3 265 265** | **7 513 774** | **10 779 039** | **-** | | **10 779 039** | **(160 094 428)** | | **(170 873 467)** | **(1 485)%** | **(4 903)%** |

# Appropriation Statement

Figures in Rand

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Transfers recognised - capital | 354 998 420 | 10 938 323 | 365 936 743 | - | | 365 936 743 | 370 470 115 | | 4 533 372 | 101 % | 104 % |
| **Surplus (Deficit) after capital transfers and contributions** | **358 263 685** | **18 452 097** | **376 715 782** | **-** | | **376 715 782** | **210 375 687** | | **(166 340 095)** | **56 %** | **59 %** |
| **Surplus/(Deficit) for the year** | **358 263 685** | **18 452 097** | **376 715 782** | **-** | | **376 715 782** | **210 375 687** | | **(166 340 095)** | **56 %** | **59 %** |
| **Capital expenditure and funds sources** | | | | | | | | | | | |
| Total capital expenditure | 396 652 920 | 14 214 298 | 410 867 218 | - | | 410 867 218 | 364 488 055 | | (46 379 163) | 89 % | 92 % |
| **Sources of capital funds** | | | | | | | | | | | |
| Transfers recognised - capital | 354 998 420 | 9 438 323 | 364 436 743 | - | | 364 436 743 | 370 470 115 | | 6 033 372 | 102 % | 104 % |
| Internally generated funds | 41 654 500 | 4 775 975 | 46 430 475 | - | | 46 430 475 | 46 430 475 | | - | 100 % | 111 % |
| **Total sources of capital funds** | **396 652 920** | **14 214 298** | **410 867 218** | **-** | | **410 867 218** | **416 900 590** | | **6 033 372** | **101 %** | **105 %** |

## Appropriation Statement

Figures in Rand

| | Reported unauthorised expenditure | Expenditure authorised in terms of section 32 of MFMA | Balance to be recovered | Restated audited outcome |
|---|---|---|---|---|
| **2015** | | | | |
| **Financial Performance** | | | | |
| Service charges | | | | 295 020 086 |
| Investment revenue | | | | 18 995 968 |
| Transfers recognised - operational | | | | 321 617 663 |
| Other own revenue | | | | 18 294 653 |
| **Total revenue (excluding capital transfers and contributions)** | | | | **653 928 370** |
| Employee costs | (249 471 702) | 9 749 358 | (259 221 060) | (267 421 308) |
| Remuneration of councillors | (10 254 226) | 639 250 | (10 893 476) | (8 689 921) |
| Depreciation and asset impairment | (85 041 574) | - | (85 041 574) | (355 597 854) |
| Finance charges | (18 950 359) | - | (18 950 359) | (12 812 707) |
| Materials and bulk purchases | (49 500 000) | 5 575 862 | (55 075 862) | (52 626 127) |
| Transfers and grants | (106 753 172) | 7 679 175 | (114 432 347) | (45 521 982) |
| Other expenditure | (201 672 989) | (1 158 767) | (200 514 222) | (188 489 432) |
| **Total expenditure** | **(721 644 022)** | **22 484 878** | **(744 128 900)** | **(931 159 331)** |
| **Surplus/(Deficit)** | | | | **(277 230 961)** |
| Transfers recognised - capital | | | | 400 790 430 |
| **Surplus (Deficit) after capital transfers and contributions** | | | | **123 559 469** |
| **Surplus/(Deficit) for the year** | | | | **123 559 469** |
| **Capital expenditure and funds sources** | | | | |
| Total capital expenditure | | | | 325 530 748 |

# Accounting Policies

### 1. Presentation of Financial Statements

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

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

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

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

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

### 1.1 Going concern assumption

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

### 1.2 Presentation currency

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

### 1.3 Change in the accounting policy and comparability

Accounting policies have been consistently applied, except where otherwise indicated below:

For the years ended 30 June 2015 and 30 June 2016 the municipality has adopted the accounting framework as set out in Note 2. The details of any resulting changes in accounting policy and comparative restatements are set out in the relevant Notes to the annual financial statements.

The municipality changes an accounting policy only if the change:

- Is required by a Standard of GRAP; or
- Results in the annual financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions, on the municipality’s financial position, financial performance or cash flow.

### 1.4 Significant judgements and sources of estimation uncertainty

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

**Trade receivables / Held to maturity investments and/or loans and receivables**

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

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

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

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

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

**Fair value estimation**

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

**Impairment testing**

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

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

**Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

**Useful lives of waste and water network and other assets**

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

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

**Post retirement benefits**

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 20.

**Allowance for doubtful debts**

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

### 1.5 Budget information

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

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

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

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

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

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

The Statement of comparative and actual information has been included in the financial statements as the recommended disclosure when the financial statements and the budget are on the same basis of accounting as determined by National Treasury.

Comparative information is not required.

### 1.6 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.

### 1.6 Investment property (continued)

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.

The carrying amount of an item of investment property is derecognised on disposal. The gain or loss arising from the derecognition of an item of investment property is included in surplus or deficit when the item is derecognised.

**Fair value**

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

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

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

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

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

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

### 1.7 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

| Item | Depreciation method | Average useful life |
|---|---|---|
| Land | Straight line | Indefinite |
| Buildings - Improvements | Straight line | 5 to 30 years |
| Infrastructure - Security measures | Straight line | 7 to 25 years |
| Infrastructure - Sewerage | Straight line | 7 to 60 years |
| Infrastructure - Water | Straight line | 5 to 100 years |
| Community - Sports facilities | Straight line | 5 to 30 years |
| Community - Other facilities | Straight line | 5 to 30 years |
| Other - Computer equipment | Straight line | 3 to 10 years |
| Other - Furniture and Fittings | Straight line | 3 to 15 years |
| Other - Office equipment | Straight line | 3 to 15 years |
| Other - Plant and equipment | Straight line | 2 to 15 years |
| Other - Specialised vehicles | Straight line | 10 to 15 years |
| Other - Other Movable Assets | Straight line | 5 to 15 years |

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

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

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

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

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

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

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

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.

### 1.8 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.

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.

## Accounting Policies

### 1.8 Intangible assets (continued)

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:

| **Item** | **Useful life** |
|---|---|
| Computer software, other | 2 to 5 years |
| Intangible assets under development | Infinitive |

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

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

### 1.9 Investments in controlled entities

Investments in controlled entities are carried at cost less any accumulated impairment.

The cost of an investment in controlled entity is the aggregate of:
- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the municipality; plus
- any costs directly attributable to the purchase of the controlled entity.

An adjustment to the cost of a business combination contingent on future events is included in the cost of the combination if the adjustment is probable and can be measured reliably.

### 1.10 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.

**1.10 Financial instruments (continued)**

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

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

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

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

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

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

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

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

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

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

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

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

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity’s net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

## Accounting Policies

**1.10 Financial instruments (continued)**

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

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

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

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

**Classification**

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

| **Class** | **Category** |
|---|---|
| Long-term receivables | Financial asset measured at amortised cost |
| Receivables from exchange transactions | Financial asset measured at amortised cost |
| Receivables from non-exchange transactions | Financial asset measured at amortised cost |
| Investments | Financial asset measured at amortised cost |
| Cash and cash equivalents | Financial asset measured at fair value |

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

| **Class** | **Category** |
|---|---|
| Annuity loans | Financial liability measured at amortised cost |
| Finance lease liability | Financial liability measured at amortised cost |
| Payables from exchange transactions | Financial liability measured at amortised cost |
| Consumer Deposits | Financial liability measured at amortised cost |
| Bank overdraft | Financial liability measured at fair value |

**Initial recognition**

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

The entity recognises financial assets using trade date accounting.

### 1.10 Financial instruments (continued)

**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.

### 1.10 Financial instruments (continued)

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

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

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

**Fair value measurement considerations**

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

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

**Reclassification**

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

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

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

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

**Gains and losses**

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

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

**Impairment and uncollectibility of financial assets**

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

Financial assets measured at amortised cost:

**1.10 Financial instruments (continued)**

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.

**1.10 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 recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

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

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

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

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

**Financial liabilities**

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

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

# Accounting Policies

### 1.10 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 debited by the entity directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

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.

### 1.11 Tax

**Value added tax**

The municipality accounts for value added tax on the payment basis in accordance with section 15(2) of the value-added tax act (Act No. 89 of 1991).

### 1.12 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.

**1.12 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.

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

Consumable stores, maintenance stores, and water:

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value (net amount that the municipality expects to realise from the sale on inventory in the ordinary course of business). If Inventories are to be distributed at no charge or for a nominal charge, they are valued at the lower of cost and current replacement cost.

Water inventory:

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes, etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, that is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, is therefore not recognised in the statement of financial position.

The basis of determining the cost of water purchased and not yet sold at statement of financial position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the Inventory to its present location and condition, net of trade discounts and rebates.

### 1.13 Inventories (continued)

Water and purified effluent are valued by using the First In First Out Method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

Redundant and slow-moving Inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the measurement of such Inventory at the lower of cost and net realisable value are recognised in the statement of financial performance in the year in which they arise. The amount of any reversal of any write-down of Inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of Inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of Inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

### 1.14 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

**Identification**

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

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

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

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

**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.

**Basis for estimates of future cash flows**

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

**Composition of estimates of future cash flows**

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

**Discount rate**

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

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

**Recognition and measurement (individual asset)**

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

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued 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 cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

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

**Cash-generating units**

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

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

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

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

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

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

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

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

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

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

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

**Reversal of impairment loss**

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

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

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

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.

**Redesignation**

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

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

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

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

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

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

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

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

**1.15 Impairment of non-cash-generating assets (continued)**

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

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

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

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

**Identification**

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

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

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

**Value in use**

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

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

**Restoration cost approach**

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

**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.

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

**Reversal of an impairment loss**

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

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

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

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

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

**Redesignation**

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

### 1.16 Employee benefits

**Short-term employee benefits**

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

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 expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

**Defined contribution plans**

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

### 1.16 Employee benefits (continued)

**Defined benefit plans**

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

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 presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

**Other post retirement obligations**

The entity provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to qualifying 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 entity also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

### 1.17 Provisions, contingent assets and contingent liabilities

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.

### 1.17 Provisions, contingent assets and contingent liabilities (continued)

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

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

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

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

Provisions are not recognised for future operating deficits.

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

A constructive obligation to restructure arises only when an entity:

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

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 43.

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

**1.17 Provisions, contingent assets and contingent liabilities (continued)**

- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

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

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

**1.18 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.

**1.19 Revenue from exchange transactions**

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

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

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

**Measurement**

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

**Sale of goods**

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

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

### 1.19 Revenue from exchange transactions (continued)

**Rendering of services**

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

**Interest, royalties and dividends**

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

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

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

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

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

**Service charges**

Service charges are levied in terms of approved tariffs.

Service charges from water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional metre reading of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional metre reading of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property and water consumption, using the tariffs approved by the Council, and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

**Finance income**

### 1.19 Revenue from exchange transactions (continued)

Interest earned on investments is recognised in the statement of financial performance on the time proportionate basis that takes into account the effective yield on the investment.

Interest earned on the following investments is not recognised in the statement of financial performance:

(i) Interest earned on unspent conditional grants is allocated directly to the creditor: Unspent conditional grants, if the grant conditions indicate that interest is payable to the funder.

**Rentals received**

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

**Tariff charges**

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant advertised tariff. This includes the issuing of licences and permits.

### 1.20 Revenue from non-exchange transactions

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

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

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.

**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.

**Grants in aid**

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

# Accounting Policies

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

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

These transfers are recognised in the statement of financial performance as expenses in the period that the events giving rise to the transfer occurred.

**Government grants**

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the statement of financial performance in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality’s interest, it is recognised as interest earned in the Statement of Financial Performance.

Revenue is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

**Public contributions and donations received**

Public contributions and donations received are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

Assets acquired from non-exchange transactions are measured at fair value in accordance with the Standards of GRAP.

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

**Revenue from recovery of unauthorised, irregular and wasteful expenditure**

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

### 1.21 Investment income

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

### 1.22 Borrowing costs

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

Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use of sale.

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

### 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 is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 102(1) to 102(4) of the MFMA requires the following (effective from 1 April 2008):

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

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

### 1.26 Irregular expenditure (continued)

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

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

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

### 1.27 Related parties

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

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

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

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

### 1.28 Comparative figures

**Current year comparative**

In accordance with GRAP 1 Budgeted Amounts have been provided and forms part of the annual financial statements.

**Prior year comparatives**

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

**Budget information**

The annual budget figures have been prepared in accordance with the GRAP standard and are consistent with the accounting policies adopted by the council for the preparation of these annual financial statements. Explanatory comment is provided in the statement giving reasons for overall growth or decline in the budget and motivations for over or under spending on line items. The annual budget figures included in the annual financial statements are for the municipality and do not include budget information relating to subsidiaries or associates. These figures are those approved by the council at the beginning and during the year following a period of consultation with the public as part of the Integrated Development Plan.

### 1.29 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

**1.29 Events after reporting date (continued)**

- 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.

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

### 2. New standards and interpretations

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

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

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
|---|---|---|
| • GRAP 105: Transfers of functions between entities under common control | 01 April 2015 | The impact of the amendment is not material. |
| • GRAP 106: Transfers of functions between entities not under common control | 01 April 2015 | The impact of the amendment is not material. |
| • GRAP 107: Mergers | 01 April 2015 | The impact of the amendment is not material. |
| • IGRAP 11: Consolidation – Special purpose entities | 01 April 2015 | The impact of the amendment is not material. |
| • IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures | 01 April 2015 | The impact of the amendment is not material. |
| • GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements | 01 April 2015 | The impact of the amendment is not material. |
| • GRAP 7 (as revised 2010): Investments in Associates | 01 April 2015 | The impact of the amendment is not material. |
| • GRAP 8 (as revised 2010): Interests in Joint Ventures | 01 April 2015 | The impact of the amendment is not material. |

### 2.2 Standards and Interpretations early adopted

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

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
|---|---|---|
| • GRAP 20: Related parties | 01 April 2016 | The impact of the amendment is not material. |

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

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2016 or later periods:

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
|---|---|---|
| • GRAP32: Service Concession Arrangements: Grantor | 01 April 2016 | Not yet effective |
| • GRAP108: Statutory Receivables | 01 April 2016 | Not yet effective |
| • IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset | 01 April 2016 | Not yet effective |
| • DIRECTIVE 11: Changes in measurement bases following the initial adoption of Standards of GRAP | 01 April 2016 | Not yet effective |

# Notes to the Financial Statements

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

**GRAP 18: Segment Reporting**

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

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

The municipality expects to adopt the standard for the first time in the 2016 financial statements.

**3. Inventories**

| | | |
|---|---|---|
| Consumable stores | 4 636 017 | 7 322 970 |
| Maintenance materials | 6 410 189 | 6 673 837 |
| Water | 477 849 | 429 661 |
| | **11 524 055** | **14 426 468** |

The municipality has identified and measured all inventory in terms of GRAP 12 for the financial year ended 30 June 2016. The balances of the inventories have accordingly been restated retrospectively.

The cost of water production for the year amounted to R1,97 per kilolitre (2015: R1,87 per kilolitre).

No inventories have been pledged as collateral for liabilities of the municipality.

**4. Long-term receivables**

| | | |
|---|---|---|
| **At amortised cost** | | |
| Sundry Loans | 240 668 | 310 271 |
| Sundry loans are made of recoveries that are receivable from employees as results of damages to municipality belongings and employee has acknowlegded the negligence. The sundry loans are not secured and are interest free. The average term of these loans 1 to 5 years. | | |

# Notes to the Financial Statements

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

## 4. Long-term receivables (continued)

| | | |
|---|---|---|
| Relocation costs<br>Relocation costs are interest free and are recoverable from the employee when the agreed terms of employment contract are not honoured. The average term of this loans are 3 years. During the current financial period there were no rellocation costs were receivable. | - | 12 228 |
| | 240 668 | 322 499 |
| Impairments | (127 709) | - |
| | **112 959** | **322 499** |

| | | |
|---|---|---|
| **Non-current assets** | | |
| At amortised cost | 101 365 | 270 644 |
| | | |
| **Current assets** | | |
| At amortised cost | 11 594 | 51 855 |

## 5. Operating lease asset (accrual)

| | | |
|---|---|---|
| Current assets | 46 289 | 28 410 |
| Current liabilities | (55 585) | (50 643) |
| | **(9 296)** | **(22 233)** |

Operating leases are recognised on the straight-line basis as per the requirement of GRAP 13. In respect of non-cancellable operating leases the current assets and current liabilities (accrual) have been recognised as above.

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

### 5. Operating lease asset (accrual) (continued)

| | | |
| --- | --- | --- |
| **Operating lease asset** | | |
| Balance at beginning of year | 28 410 | 57 450 |
| Operating lease revenue recorded | 1 111 769 | 968 235 |
| Operating lease revenue from smoothing | (1 093 890) | (997 275) |
| **Total operating lease assets** | **46 289** | **28 410** |

**Leasing Arrangements**

**The Municipality as Lessor:**

Operating leases relate to property owned by the municipality with lease terms of between 1 to 3 years, with an option to extend. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

**Amounts receivable under operating leases**

At the reporting date the following minimum lease payments were receivable under non-cancellable operating leases for property, plant and equipment, which are receivable as follows:

| | | |
| --- | --- | --- |
| Up to 1 year | 227 621 | 443 024 |
| 2 to 5 years | 674 223 | 901 844 |
| **Total** | **901 844** | **1 344 868** |

The impact of charging the escalations in operating leases on a straight-line basis over the term of the lease has been a decrease in current year income of R46 288 (2015: R28 410).

The following restrictions (if any) have been imposed by the municipality in terms of the (specify) lease agreements:

(i) The lessee shall not have the right to sublet, cede or assign the whole or any portion of the premises let.

(ii) The lessor or its duly authorised agent, representative or servant shall have the right at all reasonable times to inspect the premises let.

(iii) The lessee shall use the premises let for the sole purpose prescribed in the agreement.

**Operating lease accrual**

Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13.

| | | |
| --- | --- | --- |
| Balance at beginning of year | 50 642 | 59 991 |
| Operating lease expenses recorded | 1 885 003 | 1 836 763 |
| Operating lease payments from smoothing | (1 880 060) | (1 846 112) |
| **Total operating lease accrual** | **55 585** | **50 642** |

**Leasing arrangements**

**The Municipality as Lessee**

Operating leases relate to property, plant and equipment with lease terms not longer than 5 years, with an option to extend for a further period. All operating lease contracts contain market review clauses in the event that the municipality exercises its option to renew. The municipality does not have an option to purchase the leased asset at the expiry of the lease period.

**Amounts payable under operating lease**

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

**5. Operating lease asset (accrual) (continued)**

At the reporting date the municipality had outstanding commitments under non-cancellable operating leases for property, plant and equipment, which fall due as follows:

| | | |
| --- | --- | --- |
| Within one year | 436 369 | 827 632 |
| In the second to third years, inclusive | 552 211 | 415 667 |
| Over three years | - | 165 443 |
| | **988 580** | **1 408 742** |

The following payments have been recognised as an expense in the Statement of Financial Performance:

| | | |
| --- | --- | --- |
| Minimum lease payments | 1 885 003 | 1 836 763 |

The municipality has operating lease agreements for the following classes of assets, which are only significant collectively:

- Office equipment

The following restrictions have been imposed on the municipality in terms of the lease agreements on office equipment:

(i) The equipment shall remain the property of the lessor.

(ii) The hirer shall not sell, sublet, cede, assign or delegate any of its rights or obligations on the equipment

(iii) The equipment shall be returned in good order and condition to the lessor upon termination of the agreement.

(iv) The municipality is obliged to enter into a maintenance agreement with the lessor for the equipment rented.

**6. Receivables from non-exchange transactions**

| | | |
| --- | --- | --- |
| Payments made in advance | 9 740 266 | 14 169 625 |
| Government grants and subsidies | - | 24 842 210 |
| Insurance claims | - | 122 367 |
| Municipal entities | - | 50 979 |
| Sundry deposits | 1 604 432 | 808 432 |
| Sundry debtors | 15 770 685 | 10 510 875 |
| | **27 115 383** | **50 504 488** |

The average credit period for government grants and subsidies is dependent on the government department involved and the nature of the claim. No interest is charged on outstanding government grants and subsidies. The subsidies are payable to the municipality due to allocations made in DORA or based on agreements between the municipality and the relevant departments.

Insurance claims are amounts which are claimable in terms of the insurance contract entered into by the municipality. The average waiting period depends on the nature of the claim. No interest is charged on outstanding insurance claims.

Sundry receivables are in respect of debits outstanding at year-end on normal business transactions entered into by the municipality.

The average credit period for receivables is 30 days. No interest is charged for the first 30 days from the date of the invoice. Thereafter interest is charged at the prime rate, charged by the municipality's banker, plus one percent per annum on the outstanding balance. The municipality strictly enforces its approved credit control policy to ensure the recovery of receivables.

The municipality does not hold deposits or other security for its receivables.

None of the receivables have been pledged as security for the municipality's financial liabilities.

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

The management of the municipality is of the opinion that the carrying value of receivables approximate their fair values.

**Receivables from non-exchange transactions past due but not impaired**

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2016, R 7 041 696 (2015: R 10 737 228) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

| | 2016 | 2015 |
|---|---|---|
| 3 months past due | 7 041 696 | 10 737 228 |

**Reconciliation of provision for impairment of receivables from non-exchange transactions**

| | 2016 | 2015 |
|---|---|---|
| Opening balance | 2 865 549 | 8 918 964 |
| Provision for impairment | 410 296 | - |
| Amounts written off as uncollectible | - | (6 053 415) |
| | **3 275 845** | **2 865 549** |

The provision of impairment on receivables exists predominently due to the possibility that these amounts may not be recovered. The receivables were assessed individually and grouped together at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment.

The provision for impairment was calculated after grouping all the financial assets for similar nature and risk ratings and assessing the recoverability.

In determining the recoverability of a receivable, the municipality considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. The consideration of credit risk is limited due to most of these being sundry in nature.

### 7. VAT receivable

| | 2016 | 2015 |
|---|---|---|
| VAT | 36 466 126 | - |

Vat is payable on the payment basis. Once payment is received from customers/receivables, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are effected before the due date.

### 8. Receivables from exchange transactions

| | 2016 | 2015 |
|---|---|---|
| **Gross balances** | | |
| Water rates | 55 311 968 | 39 448 907 |
| Water | 202 403 385 | 159 112 650 |
| Sewerage | 61 664 627 | 61 408 041 |
| Other trade | 5 553 194 | 5 466 626 |
| | **324 933 174** | **265 436 224** |

| | 2016 | 2015 |
|---|---|---|
| **Less: Allowance for impairment** | | |
| Water rates | (47 387 754) | (24 184 196) |
| Water | (141 313 703) | (102 222 236) |
| Sewerage | (36 898 873) | (40 239 667) |
| Other trade | (3 732 107) | (3 732 107) |
| | **(229 332 437)** | **(170 378 206)** |

# Notes to the Financial Statements

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

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

| | | |
| --- | --- | --- |
| **Net balance** | | |
| Water rates | 7 924 214 | 15 264 711 |
| Water | 61 089 682 | 56 890 414 |
| Sewerage | 24 765 754 | 21 168 374 |
| Other trade | 1 821 087 | 1 734 519 |
| | **95 600 737** | **95 058 018** |

| | | |
| --- | --- | --- |
| **Rates** | | |
| Current (0 -30 days) | 999 828 | 3 029 748 |
| 31 - 60 days | 10 527 | 77 718 |
| 61 - 90 days | 11 504 | 57 418 |
| +90 days | 6 902 355 | 12 099 827 |
| | **7 924 214** | **15 264 711** |

| | | |
| --- | --- | --- |
| **Water** | | |
| Current (0 -30 days) | 17 163 046 | 14 119 066 |
| 31 - 60 days | 5 957 502 | 4 408 069 |
| 61 - 90 days | 4 830 167 | 3 483 731 |
| +90 days | 33 138 967 | 34 879 548 |
| | **61 089 682** | **56 890 414** |

| | | |
| --- | --- | --- |
| **Sewerage** | | |
| Current (0 -30 days) | 7 900 069 | 8 446 128 |
| 31 - 60 days | 2 408 068 | 2 525 068 |
| 61 - 90 days | 1 703 413 | 2 377 970 |
| +90 days | 12 754 204 | 7 819 208 |
| | **24 765 754** | **21 168 374** |

| | | |
| --- | --- | --- |
| **Other (specify)** | | |
| 91 - 120 days | 1 821 087 | 1 734 519 |

| | | |
| --- | --- | --- |
| **Reconciliation of allowance for impairment** | | |
| Balance at beginning of the year | (170 378 206) | (94 649 959) |
| Contributions to allowance | (59 016 699) | (85 629 566) |
| Debt impairment written off against allowance | 62 468 | 9 901 319 |
| | **(229 332 437)** | **(170 378 206)** |

# Notes to the Financial Statements

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

## 9. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---|---|---|
| Bank balances | 43 554 709 | 36 989 962 |
| Short-term deposits | 215 203 330 | 222 079 555 |
| Other cash and cash equivalents | 4 967 | 4 910 |
| Bank overdraft | (2 306 145) | (26 152 189) |
| | **256 456 861** | **232 922 238** |

| | | |
|---|---|---|
| Current assets | 258 763 006 | 259 074 427 |
| Current liabilities | (2 306 145) | (26 152 189) |
| | **256 456 861** | **232 922 238** |

For the purposes of the Statement of Financial Position and the Cash Flow Statement, cash and cash equivalents include cash-on-hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts.

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

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

| **Credit rating** | | |
|---|---|---|
| AAA | 91 468 011 | 47 164 170 |
| AA | 125 018 578 | 120 018 266 |
| A | 40 000 000 | 65 000 000 |
| Other | - | 734 892 |
| | **256 486 589** | **232 917 328** |

### 9. Cash and cash equivalents (continued)

**The municipality had the following bank accounts**

| Account number / description | Bank statement balances 30 June 2016 | 30 June 2015 | 30 June 2014 | Cash book balances 30 June 2016 | 30 June 2015 | 30 June 2014 |
|---|---|---|---|---|---|---|
| ABSA BANK - Port Shepstone - Account Number 406 668 6529 (Primary Bank Account): | 726 453 | 83 756 | 106 422 | 456 884 | (16 321 139) | 5 568 |
| ABSA BANK - Port Shepstone - Account Number 406 668 6472 (General Bank Account): | 5 176 442 | 3 223 171 | (1 522 481) | (2 306 145) | (5 017 457) | (3 343 474) |
| ABSA BANK - Port Shepstone - Account Number 406 668 6294 (Collection Account): | 798 319 | 83 316 | 897 611 | 774 383 | 59 381 | 873 676 |
| ABSA BANK - Port Shepstone - Account Number 406 671 0647 (Consumer Deposits Bank Account): | 2 173 512 | 740 365 | 2 874 066 | 748 577 | (66 618) | 654 262 |
| ABSA BANK - Port Shepstone - Account Number 406 660 3763 (Salaries Account): | 118 612 | (56 150) | 259 244 | 118 612 | (56 150) | 140 753 |
| ABSA BANK - Port Shepstone - Account Number 406 757 0977 (Sanlam Group Life Account): | 4 243 781 | 4 165 110 | 4 148 944 | 4 243 781 | 4 165 110 | 4 114 804 |
| ABSA BANK - Port Shepstone - Account Number 406 668 6367 (MIG Project Account): | 50 896 | (4 690 825) | 120 005 | 50 896 | (4 690 825) | 120 005 |
| ABSA BANK - Port Shepstone - Account Number 407 187 0797 (Disaster Account): | - | - | 199 600 | - | - | 199 600 |
| ABSA BANK - Port Shepstone - Account Number 407 198 0239 (Market Account): | - | - | 371 245 | - | - | 371 245 |
| ABSA BANK - Port Shepstone - Account Number 407 626 7341 (EFF Bank Account): | - | - | 1 640 | - | - | 1 640 |
| **Total** | **13 288 015** | **3 548 743** | **7 456 296** | **4 086 988** | **(21 927 698)** | **3 138 079** |

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

## 10. Investment property

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** |
| Investment property | 29 500 000 | - | 29 500 000 | 29 403 251 | - | 29 403 251 |

The Municipality has classified the Ugu Fresh Produce Market, and Ugu Sports & Leisure, as investment property in terms of its asset management policy. The property is situated at Bhobhoyi – in the Port Shepstone Town Planning Scheme, lot no 3249 and measures approximately 85 000 square metres. The market offers 18 vendor stalls for retailers, refrigerated storage, a wholesale/agents sales hall, a state-of-the-art multi-purpose ripening facility, an office block, ample parking space, a taxi rank and plenty ablution facilities. The whole facility is secured with 24-hour security guards.

The municipality uses the fair value model to value its investment properties. For the year ending 30 June 2016 a fair value assessment was undertaken by Pierre Rynners Valuers. The valuation methodology applied is the income capitalisation approach, were by the net rental income is capitalised at an appropriate rate, in order to arrive at an estimate of market value. A fair value adjustment has been affected in the financial statements valuation.

**Reconciliation of investment property - 2016**

| | **Opening balance** | **Fair value adjustments** | **Total** |
|---|---|---|---|
| Investment property | 29 403 251 | 96 749 | 29 500 000 |

**Reconciliation of investment property - 2015**

| | **Opening balance** | **Transfers received** | **Fair value adjustments** | **Total** |
|---|---|---|---|---|
| Investment property | 14 600 000 | 19 003 251 | (4 200 000) | 29 403 251 |

| | | |
|---|---|---|
| Fair value of investment properties | 29 500 000 | 29 403 251 |

**Pledged as security**

No investment properties have been pledged as collateral for liabilities of the municipality.

| **Revenue and expenditure disclosed in the Statement of Financial Performance include the following:** | | |
|---|---|---|
| Rental revenue earned from Investment Property | 1 099 193 | 1 283 662 |
| Direct operating expenses | (1 103 654) | (784 341) |
| | **(4 461)** | **499 321** |

# Notes to the Financial Statements

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

### 11. Property, plant and equipment

| | 2016 | | | 2015 | | |
| --- | --- | --- | --- | --- | --- | --- |
| | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** |
| Buildings | 198 127 500 | (35 830 266) | 162 297 234 | 181 659 884 | (33 381 441) | 148 278 443 |
| Infrastructure | 8 279 030 596 | (4 521 721 707) | 3 757 308 889 | 7 950 595 394 | (4 343 751 952) | 3 606 843 442 |
| Other property, plant and equipment | 154 161 268 | (108 022 230) | 46 139 038 | 141 924 495 | (100 695 221) | 41 229 274 |
| **Total** | **8 631 319 364** | **(4 665 574 203)** | **3 965 745 161** | **8 274 179 773** | **(4 477 828 614)** | **3 796 351 159** |

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

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

| | Opening balance | Additions | Disposals | Transfers received | Depreciation | Impairment loss | Total |
|---|---|---|---|---|---|---|---|
| Buildings | 148 278 443 | 16 467 616 | - | - | (2 448 825) | - | 162 297 234 |
| Infrastructure | 3 606 843 442 | 328 855 409 | - | - | (177 969 754) | (420 208) | 3 757 308 889 |
| Other property, plant and equipment | 41 229 274 | 14 131 729 | (227 505) | 64 590 | (9 059 050) | - | 46 139 038 |
| | **3 796 351 159** | **359 454 754** | **(227 505)** | **64 590** | **(189 477 629)** | **(420 208)** | **3 965 745 161** |

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

| | Opening balance | Additions | Disposals | Transfers received | Transfers | Depreciation | Impairment loss | Total |
|---|---|---|---|---|---|---|---|---|
| Buildings | 143 596 657 | 8 794 374 | - | - | (1 879 415) | (2 233 173) | - | 148 278 443 |
| Infrastructure | 3 480 012 797 | 302 595 505 | - | - | - | (175 764 860) | - | 3 606 843 442 |
| Community | 96 983 437 | - | - | - | (17 123 836) | (3 564 353) | (76 295 248) | - |
| Other property, plant and equipment | 38 534 986 | 10 850 137 | (1 851) | 810 785 | - | (8 964 783) | - | 41 229 274 |
| | **3 759 127 877** | **322 240 016** | **(1 851)** | **810 785** | **(19 003 251)** | **(190 527 169)** | **(76 295 248)** | **3 796 351 159** |

**Pledged as security**

No property, plant and equipment have been pledged as collateral for liabilities of the municipality.

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

**Depreciation rates**

| Item | Depreciation method | Average useful life |
|---|---|---|
| Land | Straight line | Indefinite |
| Buildings | Straight line | 5 to 30 years |
| Furniture and fixtures | Straight line | 3 to 15 years |
| Motor vehicles | Straight line | 4 to 15 years |
| Office equipment | Straight line | 3 to 15 years |
| IT equipment | Straight line | 3 to 10 years |
| Infrastructure - Security measures | Straight line | 7 to 25 years |
| Infrastructure - Sewerage | Straight line | 7 to 60 years |
| Infrastructure - Water | Straight line | 5 to 100 years |
| Other property, plant and equipment | Straight line | 2 to 15 years |
| Other assets | Straight line | 5 to 30 years |
| Sports facilities | Straight line | 5 to 30 years |
| Other facilities | Straight line | 5 to 30 years |
| Specialised vehicles | Straight line | 10 to 15 years |

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.

**Owner-occupied property transferred to investment property**

The municipality had taken a decision in the 2014/15 financial year that Ugu Sports and Leisure, previously owner occupied and carried under the cost model, will as at 01 March 2015 will be held to earn rentals and should therefore be transferred to investment property carried under the fair value model.

| | 2016 | 2015 |
|---|---|---|
| **Buildings (Ugu Sports and Leisure)** | | |
| Cost - Opening balance | - | 115 714 416 |
| Accumulated depreciation and impairment losses | - | (18 730 980) |
| Carrying amount - opening balance | - | 96 983 436 |
| Depreciation | - | (3 564 352) |
| Impairment loss | - | (76 295 248) |
| **Carrying amount of transfers** | **-** | **17 123 836** |
| | | |
| Cost | - | 115 714 416 |
| Accumulated depreciation and impairment losses | - | (98 590 580) |
| **Transfer to investment property (See note 10)** | **-** | **17 123 836** |
| | | |
| **Land (Ugu Sports and Leisure)** | | |
| Cost | - | 1 879 415 |
| | | |
| **Total assets transferred from PPE and Investment Property** | | |
| Cost | - | 117 593 831 |
| Accumulated depreciation and impairment losses | - | (98 590 580) |
| **Total transfer to investment property (See note 10)** | **-** | **19 003 251** |

### 12. Intangible assets

| | 2016 | | | 2015 | | |
| --- | --- | --- | --- | --- | --- | --- |
| | **Cost / Valuation** | **Accumulated amortisation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated amortisation and accumulated impairment** | **Carrying value** |
| Computer software | 36 753 534 | (27 951 995) | 8 801 539 | 31 784 821 | (25 510 336) | 6 274 485 |
| Servitudes | 2 659 160 | - | 2 659 160 | 2 659 160 | - | 2 659 160 |
| **Total** | **39 412 694** | **(27 951 995)** | **11 460 699** | **34 443 981** | **(25 510 336)** | **8 933 645** |

**Reconciliation of intangible assets - 2016**

| | **Opening balance** | **Additions** | **Transfers received** | **Amortisation** | **Total** |
| --- | --- | --- | --- | --- | --- |
| Computer software | 6 274 486 | 4 895 935 | 72 778 | (2 441 660) | 8 801 539 |
| Servitudes | 2 659 160 | - | - | - | 2 659 160 |
| | **8 933 646** | **4 895 935** | **72 778** | **(2 441 660)** | **11 460 699** |

**Reconciliation of intangible assets - 2015**

| | **Opening balance** | **Additions** | **Amortisation** | **Total** |
| --- | --- | --- | --- | --- |
| Computer software | 6 940 412 | 2 479 944 | (3 145 870) | 6 274 486 |
| Servitudes | 2 659 160 | - | - | 2 659 160 |
| | **9 599 572** | **2 479 944** | **(3 145 870)** | **8 933 646** |

**Pledged as security**

No Intangible assets have been  pledged as security for any liabilities of the municipality.

**Restrictions**

The amortisation expense has been included in the line item "Depreciation and amortisation" in the Statement of Financial Performance (see note 30)

The following restrictions apply to Intangible Assets:

-Financial Software:

(i) The system is non-assignable, non-transferable, and the municipality has no exclusive rights to use the system.

(ii) The system may be used on only one database at any one time.

(iii) The municipality, as the licensee, shall not grant usage of, or distribute, the system in its original or modified form, to a third party for the third party's benefit.

(iv) The municipality has no intellectual property rights to system.

Refer to Appendix "B" for more detail on intangible assets

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

### 12. Intangible assets (continued)

**Other information**

A brief description of significant intangible assets controlled by the municipality but not recognised as assets because they did not meet the recognition criteria in this Standard or because they were acquired or generated before the version of IAS 38 Intangible Assets issued in 1998 was effective.

(i) Website Costs incurred during the prior financial years have been expensed and not recognised as intangible assets. The municipality cannot demonstrate how its website will generate how its website will generate probable future economic benefits.

Intangible assets with indefinite useful lives:

| | 2016 | 2015 |
|---|---|---|
| Carrying value of servitudes: sewerage distribution | 1 486 723 | 1 486 723 |
| Carrying value of servitudes: water reticulation | 1 172 437 | 1 172 437 |
| Total carrying amount of intangible assets with indefinite useful lives | 2 659 160 | 2 659 160 |

Servitudes are regarded as having indefinite useful lives as they are registered permanently, the agreements not having maturing date.

### 13. Investments

| **Name of company** | **Held by** | **% holding 2016** | **% holding 2015** | **Carrying amount 2016** | **Carrying amount 2015** |
|---|---|---|---|---|---|
| Ugu South Coast Tourism (Pty) Ltd | Ugu District Municipality | 100,00 % | 100,00 % | 100 | 100 |
| South Coast Development Agency NPC | Ugu District Municipality | 100,00 % | 100,00 % | 100 | 100 |
| | | | | **200** | **200** |

| | 2016 | 2015 |
|---|---|---|
| **Grants allocated to the entities:** | | |
| Ugu South Coast Tourism (Pty) Ltd | 11 595 930 | 11 043 743 |
| South Coast Development Agency | 5 250 000 | 5 000 000 |
| | **16 845 930** | **16 043 743** |

The carrying  amounts of controlled entities are shown net of impairment losses.

The municipality exercises control in the following companies:

Ugu South Coast Tourism (Pty) Ltd is located and commencing its operations on 01 July 2009 in the Ugu District Municipality area, where the value of the investment is considered to be R100, being the issued share capital.

South Coast Development Agency, Hibiscus Coast Local Municipality has entered in a Memorandum of Understanding to transfer of this company to Ugu District Municipality as from 01 July 2014.

All thirteen members serving on the board of directors of the municipal entity are nominated by the municipality's executive committee (13/13 = 100%).

### 14. Long-term liabilities

| | 2016 | 2015 |
|---|---|---|
| **At amortised cost** | | |
| Annuity loans | 145 553 238 | 163 446 870 |

The average annuity loans period varying from 1 to 14 (2015: 1 to 15) years and at interest rates varying from 2,65% to 11,51% (2015: 2,65% to 11,5%) per annum. Annuity loans are not secured.

Refer to Appendix "A" for more details on external loans.

# Notes to the Financial Statements

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

### 14. Long-term liabilities (continued)

| | | |
|---|---|---|
| **Non-current liabilities** | | |
| At amortised cost | 125 825 541 | 144 531 365 |
| **Current liabilities** | | |
| At amortised cost | 19 727 697 | 18 915 505 |

### 15. Finance lease obligation

| | | |
|---|---|---|
| **Minimum lease payments due** | | |
| - within one year | - | 3 161 125 |
| | - | 3 161 125 |
| less: future finance charges | - | (97 339) |
| **Present value of minimum lease payments** | **-** | **3 063 786** |
| **Present value of minimum lease payments due** | | |
| - within one year | - | 3 063 785 |

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

The average lease term was 0 months (2015: 1 year) respectively and the average effective borrowing rate was 6% (2015: 6%).

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

### 16. Payables from exchange transactions

| | | |
|---|---|---|
| Trade payables | 34 785 640 | 20 410 887 |
| Other creditors | 92 903 477 | 96 705 073 |
| Retentions | 36 769 880 | 25 477 004 |
| Projects | 332 811 | 332 811 |
| Staff bonuses | 11 605 395 | 10 538 790 |
| | **176 397 203** | **153 464 565** |

### 17. Consumer deposits

| | | |
|---|---|---|
| Water | 20 606 607 | 20 034 005 |
| Guarantees held in lieu of water deposits | 495 780 | 495 780 |

### 18. Unspent government grants and receipts

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

| | | |
|---|---|---|
| **Unspent conditional grants and receipts** | | |
| National government grants | 3 649 968 | 12 411 978 |
| Provincial government grants | - | 604 676 |
| Other spheres of government | 5 079 952 | 8 349 163 |
| | **8 729 920** | **21 365 817** |

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

### 18. Unspent government grants and receipts (continued)

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

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

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

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

### 19. Provisions

**Reconciliation of provisions - 2016**

| | Opening Balance | Reduction due to re-measurement or settlement without cost to entity | Total |
|---|---|---|---|
| Current portion of post-retirement medical aid benefits liability | 944 676 | 81 960 | 1 026 636 |
| Current portion of non-current provisions | 871 315 | 1 510 278 | 2 381 593 |
| Performance bonus provision | 571 221 | 268 474 | 839 695 |
| Leave pay provision | 17 374 373 | 3 682 163 | 21 056 536 |
| | **19 761 585** | **5 542 875** | **25 304 460** |

**Reconciliation of provisions - 2015**

| | Opening Balance | Change in discount factor | Reduction due to re-measurement or settlement without cost to entity | Total |
|---|---|---|---|---|
| Current portion of post-retirement medical aid benefits liability | 881 832 | - | 62 844 | 944 676 |
| Current portion of non-current provisions | 594 544 | - | 276 771 | 871 315 |
| Performance bonus provision | 333 762 | - | 237 459 | 571 221 |
| Leave pay provision | 14 589 341 | (33 367) | 2 818 399 | 17 374 373 |
| | **16 399 479** | **(33 367)** | **3 395 473** | **19 761 585** |

### 20. Retirement benefit liabilities

**Defined benefit plan**

**Post-retirement health care benefits liability**

| | | |
| --- | --- | --- |
| Balance at beginning of year | 15 250 105 | 13 524 137 |
| Contributions to provision | 2 133 131 | 1 850 416 |
| Balance at end of year | 17 383 236 | 15 374 553 |
| Transfer to current provisions | (1 026 636) | (944 676) |
| Actuarial Loss/(Gain) | (784 815) | 820 228 |
| | **15 571 785** | **15 250 105** |

The municipality provides certain post retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of medical aid funds, with which the municipality is associated, a member is entitled to continue as member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2016 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method

The members of the post-employment health care benefit plan are made up as follows:

| | | |
| --- | --- | --- |
| In-service members (employees) | 511 | 510 |
| Continuation members | 55 | 52 |
| | **566** | **562** |

The unfunded liability in respect of past service has been estimated as follows:

| | | |
| --- | --- | --- |
| In-service members | 7 817 539 | 7 936 377 |
| Continuation members | 8 780 882 | 8 258 404 |
| | **16 598 421** | **16 194 781** |

The current-service cost for the year ending 30 June 2016 is estimated to be R746 952, whereas the cost for the ensuing year is estimated to be R692 810 ( 30 June 2015: R 610 859 and 746 952 respectively).

**Key assumptions used**

The principal assumptions used for the actuarial valuations was as follows:

| | | |
| --- | --- | --- |
| Discount rates | 8,95% | 8,81% |
| Health care cost inflation rate | 8,09% | 7,95% |
| Net effective discount rate | 0.80% | 0,80% |
| Expected retirement age - females | 63 | 63 |
| Expected retirement age - males | 63 | 63 |

Movements in the present value of the defined benefit obligation were as follows:

# Notes to the Financial Statements

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

**20. Retirement benefit liabilities (continued)**

| | 2016 | 2015 |
|---|---|---|
| Balance at beginning of the year | 16 194 781 | 14 405 969 |
| Current service costs | 746 952 | 610 859 |
| Interest cost | 1 386 179 | 1 239 557 |
| Benefits paid | (944 676) | (881 832) |
| | 17 383 236 | 15 374 553 |
| Actuarial loss/(gain) | (784 815) | 820 228 |
| **Balance at end of the year** | **16 598 421** | **16 194 781** |

The amounts recognised in the Statement of Financial Performance are as follows:

| | 2016 | 2015 |
|---|---|---|
| Current service cost | 746 952 | 610 859 |
| Interest cost | 1 386 179 | 1 239 557 |
| Actuarial losses/(gains) | (784 815) | 820 228 |
| | 1 348 316 | 2 670 644 |
| | **1 348 316** | **2 670 644** |

The history of experienced adjustments is as follows:

| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|---|
| Present value of defined benefit obligation | 16 598 421 | 16 194 781 | 14 405 969 | 22 229 850 | 19 731 792 | 22 877 435 |
| Deficit | 16 598 421 | 16 194 781 | 14 405 969 | 22 229 850 | 19 731 792 | 22 877 435 |
| Experienced adjustments on plan liabilities | (550 000) | 729 000 | (583 000) | (488 790) | (6 769 737) | 1 949 195 |
| | **16 048 421** | **16 923 781** | **13 822 969** | **21 741 060** | **12 962 055** | **24 826 630** |

The effect of a 1% movement in the assumed rate of health care cost inflation is as follows:

| **2016** | Once percentage point increase | One percentage point decrease |
|---|---|---|
| Effect on the aggregate of the current service cost and the interest cost | 3 500 | (4 400) |
| Effect on defined benefit obligation | (89 000) | 104 500 |
| | **(85 500)** | **100 100** |

| **2015** | Once percentage point increase | One percentage point decrease |
|---|---|---|
| Effect on the aggregate of the current service cost and the interest cost | 4 400 | (5 900) |
| Effect on defined benefit obligation | (78 100) | 92 400 |
| | **(73 700)** | **86 500** |

The municipality expects to make contribution of R2,133 million (2015: R3,077 million) to the defined benefit plans during the next financial year.

## Notes to the Financial Statements

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

### 21. Other long-term employee benefits

| | | |
|---|---|---|
| Provision for long service awards | 14 010 102 | 13 234 057 |

The movement in non-current provisions are reconciled as follows:

| | | |
|---|---|---|
| **Long-term service** | | |
| Balance at beginning of year | 13 234 057 | 11 076 109 |
| Contributions to provision | 3 157 638 | 3 029 263 |
| | 16 391 695 | 14 105 372 |
| Transfer to current provisions | (2 381 593) | (871 315) |
| **Balance at end of year** | **14 010 102** | **13 234 057** |

A long-service award is payable after 10 years of continuous service and every 5 years thereafter to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2016 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

At year-end, 855 (2015: 858) employees were eligible for long-service awards.

The current service costs for the year ending 30 June 2016 is estimated to be R1 560 803, whereas the cost for the ensuing year is estimated to be R1 676 614 (30 June 2015: R1 224 950 and R1 560 803 respectively).

The principal assumptions used for the purposes of the actuarial valuations were as follows:

| | | |
|---|---|---|
| Discount rates used | 8,57% | 8,16% |
| Cost inflation rate | 7,22% | 7,17% |
| Net effective discount rate | 1,26% | 0,92% |
| Expected retirement age - females | 63 | 63 |
| Expected retirement age - males | 63 | 63 |

Movements in the present value of the defined benefit obligation were as follows:

| | | |
|---|---|---|
| Balance at beginning of the year | 14 105 372 | 11 670 653 |
| Current service costs | 1 560 803 | 1 244 950 |
| Interest cost | 1 116 149 | 933 835 |
| Benefits paid | (871 315) | (594 544) |
| Actuarial losses/(gains) | 480 686 | 850 478 |
| | **16 391 695** | **14 105 372** |

The history of experienced adjustments is as follows:

| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|---|
| Present value of defined benefit obligation | 16 391 695 | 14 105 372 | 11 670 653 | 9 150 868 | 9 765 467 | 9 366 466 |
| Deficit | 16 391 695 | 14 105 372 | 11 670 653 | 9 150 868 | 9 765 467 | 9 366 466 |
| Experienced adjustments on plan liabilities | 904 695 | 910 954 | 1 671 011 | (1 664 673) | (991 516) | 870 061 |
| | **17 296 390** | **15 016 326** | **13 341 664** | **7 486 195** | **8 773 951** | **10 236 527** |

## Notes to the Financial Statements

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

### 21. Other long-term employee benefits (continued)

In accordance with transitional provisions for the amendments to GRAP 25 employee benefits in December 2004, the disclosures above are determined prospectively from the 2006 reporting.

The effect of a 1% movement in the assumed rate of long-service cost inflation is as follows:

| **2016** | One percentage point increase | One percentage point decrease |
| --- | --- | --- |
| Effect on the aggregate of the current service cost and the interest cost | 225 600 | (201 200) |
| Effect on defined benefit obligation | (69 100) | 75 400 |
| | **156 500** | **(125 800)** |

| **2015** | One percentage point increase | One percentage point decrease |
| --- | --- | --- |
| Effect on the aggregate of the current service cost and the interest cost | 192 800 | (171 600) |
| Effect on defined benefit obligation | 4 400 | (5 900) |
| | **197 200** | **(177 500)** |

The municipality expects to make a contribution of R2 980 708 (2015: R2 434 719) to the defined benefit plans during the next financial year.

### 22. Service charges

| | | |
| --- | --- | --- |
| Sale of water | 208 841 221 | 192 674 258 |
| Sewerage and sanitation charges | 107 230 741 | 102 345 828 |
| | **316 071 962** | **295 020 086** |

### 23. Rental of facilities and equipment

| | | |
| --- | --- | --- |
| **Premises** | | |
| Premises | 224 745 | 382 206 |
| **Facilities and equipment** | | |
| Rental of facilities | 864 261 | 2 048 059 |
| | **1 089 006** | **2 430 265** |

### 24. Other revenue

| | | |
| --- | --- | --- |
| Revaluation reserve/ Assets acquired at no cost | 137 368 | 810 785 |
| Administration fees | 5 700 | 83 100 |
| Building plan fees | 91 870 | 113 946 |
| Connection fees | 1 845 226 | 1 977 049 |
| Other revenue | 334 875 | 1 635 787 |
| Atmospheric emissions licenses | 942 856 | 163 600 |
| Reconnection fees | 632 143 | 595 481 |
| Tender deposits | 173 708 | 128 829 |
| Water rates certificates | 922 934 | 836 191 |
| Developers fees | 11 011 074 | 8 636 202 |
| | **16 097 754** | **14 980 970** |

# Notes to the Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|
| **25. Investment revenue** | | |
| **Interest revenue** | | |
| Short-term investments | 5 672 082 | 6 323 233 |
| Bank | 20 182 661 | 9 182 726 |
| Interest charged on trade and other receivables | 4 019 407 | 3 490 009 |
| | **29 874 150** | **18 995 968** |

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

### 26. Government grants and subsidies

| | | |
| --- | --- | --- |
| **Operating grants** | | |
| National equitable share | 303 885 000 | 264 864 935 |
| Levies replacement | 58 891 000 | 54 816 000 |
| Other grants | 135 650 | 1 936 728 |
| | **362 911 650** | **321 617 663** |

| | | |
| --- | --- | --- |
| **Capital grants** | | |
| National: MIG grant | 249 316 000 | 265 189 000 |
| National: FMG grant | 1 325 000 | 1 251 468 |
| National: DEAT grant | 430 395 | - |
| National: Local Government grants | 84 356 635 | 56 295 629 |
| National: DWAF grant | 27 216 031 | 47 545 597 |
| Provincial: Department of Cooperative Governance and Traditional Affairs grant | 3 515 479 | 25 998 847 |
| Provincial: Department of Public Works grant | 1 826 000 | 1 041 576 |
| Provincial: Department of Transport grant | 2 446 000 | 2 944 356 |
| Development Bank of Southern Africa | 38 575 | 523 957 |
| | **370 470 115** | **400 790 430** |
| | **733 381 765** | **722 408 093** |

**National: equitable share**

The equitable share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by National Treasury.

| | | |
| --- | --- | --- |
| Conditional grants received | 353 845 000 | 316 768 000 |
| Unconditional grants received | (353 845 000) | (316 768 000) |
| | - | - |

In terms of the constitution, this unconditional grant is used primarily to subsidise the provision of basic services to the community. All registered indigents receive a monthly subsidy towards the cost of basic services, which is funded from this grant.

**National: Municipal Infrastructure Grant (MIG)**

| | | |
| --- | --- | --- |
| Current-year receipts | 249 316 000 | 265 189 000 |
| Conditions met - transferred to revenue: Operating expenses | - | (5 029 963) |
| Conditions met - transferred to revenue: Capital expenses | (249 316 000) | (260 159 037) |
| | - | - |

The MIG grant is aimed at supplementing municipal budgets to eradicate backlogs in municipal infrastructure utilised in providing basic services for the benefit of poor households and for the provision, rehabilitation and renewal of municipal infrastructure . No funds were withheld.

**National: Finance Management Grant (FMG)**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | - | 1 468 |
| Current-year receipts | 1 325 000 | 1 250 000 |
| Conditions met - transferred to revenue: Operating expenses | (1 325 000) | (1 251 468) |
| | - | - |

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

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

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

**National: Economic Affairs and Tourism Grant (DEAT)**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | 430 395 | 430 395 |
| Conditions met - transferred to revenue: Operating expenses | (430 395) | - |
| | **-** | **430 395** |

Conditions still to be met - remain liabilities (see note 18).

The European Community represented by the Department of Economic Development (Gijima KZN) awarded the grant for the implementation of the action entitled "Strengthening the LED Enabling Environment".

**National: Local Government grants**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | 5 205 998 | 17 262 272 |
| Current-year receipts | 101 035 000 | 33 433 000 |
| Conditions met - transferred to revenue: Operating expenses | (940 000) | (727 002) |
| Conditions met - transferred to revenue: Capital expenses | (96 696 422) | (42 288 841) |
| Transfers withheld during the year | (8 604 576) | (2 473 431) |
| | **-** | **5 205 998** |

Conditions still to be met - remain liabilities (see note 18).

Various grants are paid by National Local Government to help implement the IDP, PMS, Sports Stadium and financial reform initiatives as required by the Municipal Finance Management Act (MFMA), 2003 and the Municipal Systems Act (MSA),2000.

**National: Department of Water Affairs and Forestry grant (DWAF)**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | 11 878 556 | 1 973 316 |
| Current-year receipts | 18 850 503 | 57 450 838 |
| Conditions met - transferred to revenue: Operating expenses | (4 166 503) | - |
| Conditions met - transferred to revenue: Capital expenses | (22 912 556) | (47 545 598) |
| | **3 650 000** | **11 878 556** |

Conditions still to be met - remain liabilities (see note 18).

DWAF grants are aimed at supplementing municipal budgets to assist with the construction of water delivery infrastructure, execution of water service delivery and the development of an Asset Management Plan.

**Provincial: Department of Cooperative Governance and Traditional Affairs Grant**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | 3 350 163 | 25 076 273 |
| Current-year receipts | 5 250 000 | 4 310 000 |
| Conditions met - transferred to revenue: Operating expenses | (1 092 030) | (4 001 950) |
| Conditions met - transferred to revenue: Capital expenses | (2 428 181) | (22 034 160) |
| | **5 079 952** | **3 350 163** |

Conditions still to be met - remain liabilities (see note 18).

Grants received from CoGTA are utilised to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required by the Municipal Structures Act. They are aimed at supplementing municipal budgets to assist with the assessment of water service delivery mechanisms, water delivery planning and water services technical support. Funding was also received to assist with the construction of the Ugu Sports and Leisure Centre. No funds were withheld.

**Provincial: Department of Public Works grant**

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

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

| | | |
|---|---|---|
| Balance unspent at beginning of year | 326 424 | 116 505 |
| Current-year receipts | 1 826 000 | 1 368 000 |
| Conditions met - transferred to revenue: Operating expenses | (1 826 000) | (1 041 576) |
| Transfers withheld during the year | (326 424) | (116 505) |
| | **-** | **326 424** |

Conditions still to be met - remain liabilities (see note 18).

This is an incentive grant from Public Works for the promotion of labour intensive projects within the District. No funds were withheld.

**Provincial: Department of Transport grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | 837 356 |
| Current-year receipts | 2 446 000 | 2 430 000 |
| Conditions met - transferred to revenue: Operating expenses | (2 446 000) | (2 944 356) |
| Other | - | (323 000) |
| | **-** | **-** |

This funding was furnished by the KZN Department of Transport to assist with the preparation of a Public Transport Plan as required by the National Land Transport Transition Act, 2000. No funds were transferred to the municipality for the year under review.

**Development Bank of Southern Africa**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 38 582 | 562 624 |
| Conditions met - transferred to revenue: Operating expenses | (38 582) | (524 042) |
| | **-** | **38 582** |

Conditions still to be met - remain liabilities (see note 18).

The purpose of this grant was to assist with the development of business plans for the seven flagship projects in the municipal area. The objectives of the projects are to enhance rural economic development and broad-based community information dissemination and empowerment. No funds were withheld.

**Other Government: Industrial Development Corporation**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | 45 020 |
| Conditions met - transferred to revenue | - | (45 020) |
| | **-** | **-** |

The purpose of this grant was to assist with the development of business plans for the seven flagship projects in the municipal area. The objectives of the projects are to enhance rural economic development and broad-based community information dissemination and empowerment. No funds were withheld.

**Other Sponsors: NPC**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 129 049 | 555 497 |
| Conditions met - transferred to revenue: Operating expenses | (129 049) | (426 448) |
| | **-** | **129 049** |

Conditions still to be met - remain liabilities (see note 18).

**Other Sponsors: National Lottery**

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

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

| | | |
|---|---|---|
| Balance unspent at beginning of year | 6 650 | 1 472 362 |
| Conditions met - transferred to revenue: Operating expenses | (6 650) | (1 465 712) |
| | **-** | **6 650** |

Conditions still to be met - remain liabilities (see note 18).

### 27. Revenue

| | | |
|---|---|---|
| Service charges | 316 071 962 | 295 020 086 |
| Rental of facilities and equipment | 1 089 006 | 2 430 265 |
| Other revenue | 16 097 754 | 14 980 970 |
| Interest received | 29 874 150 | 18 995 968 |
| Government grants & subsidies | 733 381 765 | 722 408 093 |
| | **1 096 514 637** | **1 053 835 382** |

| | | |
|---|---|---|
| **The amount included in revenue arising from exchanges of goods or services are as follows:** | | |
| Service charges | 316 071 962 | 295 020 086 |
| Rental of facilities and equipment | 1 089 006 | 2 430 265 |
| Other income - (rollup) | 16 097 754 | 14 980 970 |
| Interest received - investment | 29 874 150 | 18 995 968 |
| | **363 132 872** | **331 427 289** |

**The amount included in revenue arising from non-exchange transactions is as follows:**

| | | |
|---|---|---|
| **Transfer revenue** | | |
| Government grants & subsidies | 733 381 765 | 722 408 093 |

## Notes to the Financial Statements

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

### 28. Employee related costs

| | | |
|---|---|---|
| Basic | 166 660 872 | 152 331 712 |
| Commissions | 9 147 605 | 7 810 364 |
| Bonus | 14 655 822 | 12 816 436 |
| Medical aid - company contributions | 12 970 466 | 11 735 441 |
| UIF | 1 408 841 | 1 333 376 |
| SDL | 2 348 297 | 2 124 027 |
| Leave pay provision charge | 4 536 648 | 3 430 713 |
| Contribution long service benefits | 3 157 638 | 3 029 263 |
| Other short term costs | 70 550 | 66 586 |
| Defined contribution plans | 33 499 330 | 30 042 517 |
| Travel, motor car, accommodation, subsistence and other allowances | 1 579 408 | 1 479 930 |
| Overtime payments | 29 471 208 | 23 711 547 |
| Long-service awards | 741 548 | 2 309 605 |
| Acting allowances | 586 427 | 1 692 004 |
| Car allowance | 12 414 754 | 12 229 539 |
| Housing benefits and allowances | 1 565 654 | 1 278 248 |
| | **294 815 068** | **267 421 308** |

**Remuneration of municipal manager**

| | | |
|---|---|---|
| Annual Remuneration | 1 071 667 | 915 394 |
| Car, entertainment, housing, subsistence and other allowances | 294 665 | 292 746 |
| Performance Bonuses | 141 380 | 122 029 |
| Contributions to UIF, Medical and Pension Funds | 247 299 | 226 747 |
| Backpay | - | 36 376 |
| | **1 755 011** | **1 593 292** |

**Remuneration of chief finance officer**

| | | |
|---|---|---|
| Annual Remuneration | 660 926 | 571 446 |
| Car, entertainment, housing, subsistence and other allowances | 460 543 | 462 926 |
| Performance Bonuses | 106 875 | 70 578 |
| Contributions to UIF, Medical and Pension Funds | 49 010 | 44 812 |
| Backpay | - | 25 206 |
| | **1 277 354** | **1 174 968** |

**Corporate and human resources (corporate services)**

| | | |
|---|---|---|
| Annual Remuneration | 548 236 | 488 530 |
| Car, entertainment, housing, subsistence and other allowances | 581 878 | 583 136 |
| Performance Bonuses | 96 187 | 80 660 |
| Contributions to UIF, Medical and Pension Funds | 28 221 | 24 602 |
| Backpay | - | 25 206 |
| | **1 254 522** | **1 202 134** |

**Remuneration of the general manager: Infrastructure and Economic Development**

| | | |
|---|---|---|
| Annual Remuneration | 848 318 | 782 655 |
| Car, entertainment, housing, subsistence and other allowances | 304 156 | 307 040 |
| Performance Bonuses | 74 812 | 60 495 |
| Contributions to UIF, Medical and Pension Funds | 13 473 | 12 946 |
| Backpay | - | 25 206 |
| | **1 240 759** | **1 188 342** |

# Notes to the Financial Statements

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

### 28. Employee related costs (continued)

**Remuneration of the general manager: Water Services**

| | | |
|---|---|---|
| Annual Remuneration | 555 011 | 549 045 |
| Car, entertainment, housing, subsistence and other allowances | 465 169 | 461 140 |
| Performance Bonuses | 85 500 | 27 985 |
| Contributions to UIF, Medical and Pension Funds | 123 342 | 113 990 |
| Backpay | - | 27 985 |
| | **1 229 022** | **1 180 145** |

### 29. Remuneration of councillors

| | | |
|---|---|---|
| Mayor | 353 056 | 343 056 |
| Deputy Mayor | 261 568 | 261 568 |
| Executive committee members | 1 915 698 | 1 848 352 |
| Speaker | 258 917 | 258 918 |
| Councillors/ board members | 1 344 223 | 1 393 608 |
| Company contributions to UIF, medical and pension funds | 352 460 | 505 583 |
| Other allowances (Cellphones, housing, transport etc.) | 4 481 335 | 4 078 836 |
| | **8 967 257** | **8 689 921** |

**In-kind benefits**

The Councillors occupying the positions of Mayor, Deputy Mayor, Speaker and Executive Committee Members of the municipality serve in a full-time capacity. Each is provided with an office and secretarial support at the cost of the Council in order to enable them to perform their official duties.

The Councillors may utilise official council transportation when engaged in official duties.

The Mayor has one full-time bodyguard and one full-time driver.

The Deputy Mayor has one full-time aide, fulfilling various personal duties.

The Speaker has one full-time driver.

### 30. Depreciation and amortisation

| | | |
|---|---|---|
| Property, plant and equipment | 189 477 629 | 190 527 169 |
| Amortisation of intangible assets | 2 441 660 | 3 145 870 |
| | **191 919 289** | **193 673 039** |

### 31. Impairment of assets

| | | |
|---|---|---|
| **Impairments** | | |
| Property, plant and equipment | 420 208 | 76 295 248 |
| Trade and other receivables | 59 728 162 | 85 629 566 |
| | **60 148 370** | **161 924 814** |

### 32. Finance costs

| | | |
|---|---|---|
| Non-current borrowings | 13 088 229 | 12 247 515 |
| Other interest paid | 467 855 | 565 192 |
| | **13 556 084** | **12 812 707** |

# Notes to the Financial Statements

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

### 33. Bulk purchases

| | | |
|---|---|---|
| Water | 66 091 136 | 52 626 127 |

Bulk purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to customers. Bulk water is purchased from the Umngeni Water Board and eThekwini Municipality.

### 34. Contracted services

| | | |
|---|---|---|
| Cleaning services | 2 234 888 | 1 956 632 |
| Professional services: | - | - |
| - Chemistry | 3 514 786 | 3 726 602 |
| - Dam safety | 1 681 554 | 353 654 |
| - Engineering services | 1 545 615 | 1 066 057 |
| - Other professional services | 2 285 686 | 2 055 553 |
| Security services: | - | - |
| - Alarm monitoring | 747 | 4 039 |
| - Cash banking | 133 991 | 148 999 |
| - General security | 11 254 675 | 10 436 343 |
| - Pest control | 52 745 | 79 427 |
| | **22 704 687** | **19 827 306** |

### 35. Grants and subsidies paid

| | | |
|---|---|---|
| **Other subsidies** | | |
| Community projects | 29 909 605 | 22 251 338 |
| Other grants and subsidies paid | - | 54 195 |
| Other | 7 263 389 | 23 216 449 |
| | **37 172 994** | **45 521 982** |

Conditional grants paid is in respect of projects undertaken by municipalities within the municipality's area of jurisdiction and funded by Ugu District Municipality.

Community projects consist primary of ventilated pit latrines constructed for communities that have no access to sanitation services. This project is accelerated to deal swiftly with the municipality's sanitation backlog programme as funded through the Municipal Infrastructure Grant.

The low income subsidy is in respect of providing basic service levels to indigent households.

# Notes to the Financial Statements

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

### 36. General expenses

| | | |
|---|---|---|
| Advertising | 110 423 | 126 222 |
| Auditors remuneration | 3 090 207 | 2 384 650 |
| Bank charges | 558 333 | 560 932 |
| Cleaning | 368 808 | 377 323 |
| Commission paid | 1 378 895 | 1 223 803 |
| Consulting and professional fees | 1 172 253 | 761 984 |
| Consumables | 207 909 | 90 438 |
| Loose/small tools | 436 490 | 555 375 |
| Kwanaloga subscriptions | 2 919 853 | 1 847 144 |
| Accommodation, seminars and travelling | 619 375 | 469 675 |
| Insurance | 1 554 945 | 1 487 131 |
| Marketing | 1 992 328 | 28 013 |
| Magazines, books and periodicals | 2 483 | 148 |
| Materials | 13 060 045 | 3 663 500 |
| Drought relief expense (Salt Water) | 4 204 048 | - |
| Fuel and oil | 6 112 625 | 11 601 355 |
| Postage and courier | 1 558 349 | 1 639 821 |
| Printing and stationery | 800 962 | 1 074 418 |
| Research and development costs | 624 734 | 32 800 |
| Subscriptions and membership fees | 30 110 | 27 703 |
| Telephone and fax | 3 912 524 | 2 779 683 |
| Transport and freight | 1 634 341 | 12 545 138 |
| Training | 2 612 205 | 2 608 989 |
| Electricity | 55 948 605 | 49 382 977 |
| Uniforms and protective clothing | 286 873 | 861 310 |
| Other general expenses | 8 939 681 | 1 584 629 |
| Licences | 6 774 463 | 5 140 113 |
| Vehicle tracking | 1 117 266 | 89 269 |
| Events and programmes | 227 272 | 1 004 459 |
| Gardening services | 350 432 | 1 144 161 |
| Public participation | 544 736 | 1 162 244 |
| Sports and recreation | 131 459 | 1 351 268 |
| Refreshments | 277 119 | 167 741 |
| Workmen's compensation insurance | 1 390 225 | 1 342 380 |
| Property transfers | 1 336 389 | 907 800 |
| | **126 286 765** | **110 024 596** |

### 37. Fair value adjustments

| | | |
|---|---|---|
| Investment property (Fair value model) | 96 749 | (4 200 000) |

### 38. Auditors' remuneration

| | | |
|---|---|---|
| Fees | 3 090 207 | 2 384 650 |

## Notes to the Financial Statements

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

### 39. Cash generated from operations

| | | |
|---|---|---|
| Surplus | 210 375 687 | 123 559 469 |
| **Adjustments for:** | | |
| Depreciation and amortisation | 191 919 289 | 193 673 040 |
| Loss on sale of assets and liabilities | (646 992) | (883 418) |
| Assets acquired at no cost | (137 368) | (810 785) |
| Fair value adjustments | (96 749) | 4 200 000 |
| Impairment deficit | 60 148 370 | 161 924 814 |
| Debt impairment | 172 017 | - |
| Movements in operating lease assets and accruals | - | 19 692 |
| Expenditure incurred from retirement benefit liabilities | 321 680 | 1 725 968 |
| Contribution to provisions -current | 5 542 875 | 3 362 106 |
| Contribution to provisions - non-current | 776 045 | 2 157 948 |
| **Changes in working capital:** | | |
| Inventories | 2 902 413 | (6 357 053) |
| Receivables from exchange transactions | (60 442 900) | (50 229 951) |
| Other receivables from non-exchange transactions | 23 389 105 | (37 058 794) |
| Operating lease receivables | (17 879) | - |
| Payables from exchange transactions | 22 932 638 | 44 646 271 |
| VAT | (37 321 187) | 6 924 796 |
| Unspent conditional grants and receipts | (12 635 897) | (26 967 272) |
| Consumer deposits | 572 602 | 309 343 |
| Operating lease liability | 4 943 | - |
| | **407 758 692** | **420 196 174** |

### 40. Financial instruments disclosure

**Categories of financial instruments**

**2016**

**Financial assets**

In accordance with GRAP 104.13 for the financial assets for the municipality are classified as follows:

| | At fair value | At amortised cost | Total |
| --- | --- | --- | --- |
| Long-term receivables | - | - | - |
| - Sundry loans | - | 251 734 | 251 734 |
| Receivables from Exchange Transactions | - | - | - |
| - Sewerage | - | 24 904 637 | 24 904 637 |
| - Other trade receivables | - | 1 826 993 | 1 826 993 |
| - Water | - | 61 231 462 | 61 231 462 |
| - Water rates | - | 7 924 214 | 7 924 214 |
| Receivables from Non-exchange Transactions | - | - | - |
| Payments made in advance | - | 9 740 266 | 9 740 266 |
| Sundry deposits | - | 1 604 432 | 1 604 432 |
| Sundry debtors | - | 15 808 912 | 15 808 912 |
| Cash and Cash Equivalents | - | - | - |
| Call deposits | 50 184 752 | - | 50 184 752 |
| Notice deposits | - | 165 018 579 | 165 018 579 |
| Bank balances | 41 248 565 | - | 41 248 565 |
| Cash floats and advances | 4 967 | - | 4 967 |
| Current-portion of Long-term Receivables | - | - | - |
| Sundry loans | - | 11 594 | 11 594 |
| | **91 438 284** | **288 322 823** | **379 761 107** |

**Financial liabilities**

In accordance with GRAP 104.13 the financial liabilities of the municipality are classified as follows:

| | At fair value | At amortised cost | Total |
| --- | --- | --- | --- |
| Compound instruments | - | - | - |
| Annuity loans | - | 145 553 238 | 145 553 238 |
| Other financial liabilities | - | - | - |
| Trade and other payables from exchange transactions | - | 172 837 112 | 172 837 112 |
| Bank overdraft | 2 306 145 | - | 2 306 145 |
| | **2 306 145** | **318 390 350** | **320 696 495** |

**2015**

**Financial assets**

| | At fair value | At amortised cost | Total |
| --- | --- | --- | --- |
| Long-term receivables | - | - | - |
| - Relocation loans | - | 2 661 | 2 661 |
| - Sundry loans | - | 305 361 | 305 361 |
| Receivables from Exchange Transactions | - | - | - |
| Sewerage | - | 50 183 184 | 50 183 184 |
| Other trade receivables | - | 1 734 518 | 1 734 518 |
| Water | - | 110 186 253 | 110 186 253 |

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

### 40. Financial instruments disclosure (continued)

| | | | |
|---|---|---|---|
| Water rates | - | 18 583 628 | 18 583 628 |
| Receivables from Non-exchange Transactions | - | - | - |
| Payments made in advance | - | 4 353 985 | 4 353 985 |
| Government subsidy claims | - | 11 562 424 | 11 562 424 |
| Insurance claims | - | 122 367 | 122 367 |
| Municipal entities | - | 50 979 | 50 979 |
| Sundry deposits | - | 808 432 | 808 432 |
| Sundry debtors | - | 342 497 865 | 342 497 865 |
| Cash and Cash Equivalents | - | - | - |
| Call deposits | 36 344 664 | - | 36 344 664 |
| Notice deposits | - | 185 734 892 | 185 734 892 |
| Bank balances | 15 855 230 | - | 15 855 230 |
| Cash floats and advances | 4 910 | - | 4 910 |
| Current-portion of Long-term Receivables | - | - | - |
| Relocation loans | - | 9 567 | 9 567 |
| Sundry loans | - | 3 600 | 3 600 |
| | **52 204 804** | **726 139 716** | **778 344 520** |

**Financial liabilities**

| | At fair value | At amortised cost | Total |
|---|---|---|---|
| Annuity loans | - | 163 440 870 | 163 440 870 |
| Other financial liabilities | - | 3 063 785 | 3 063 785 |
| Trade and other payables from exchange transactions | - | 156 441 249 | 156 441 249 |
| Bank overdraft | 5 017 457 | - | 5 017 457 |
| | **5 017 457** | **322 945 904** | **327 963 361** |

**Fair value**

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practical to estimate such value:

Cash and short-term investments:

The carrying amount approximates the fair value because of the short maturity of these instruments.

Long-term investments

The fair value of some Investments are estimated based on quoted market prices of those or similar investments. Unlisted equity investments are estimated using the discounted cash flow method.

Loan receivables/payables

Interest-bearing borrowings and receivables are generally at interest rates in line with those currently available in the market on a floating-rate basis, and therefore the fair value of these financial assets and liabilities closely approximates their carrying values. Fixed interest-rate instruments are fair valued based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Trade and other receivables/payables

The management of the municipality is of the opinion that the carrying value of trade and other receivables recorded at amortised cost in the annual financial statements approximate their fair values. The fair value of trade receivables were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratio's of the municipality's debtors.

Other financial assets and liabilities

### 40. Financial instruments disclosure (continued)

The fair value of other financial assets and financial liabilities (excluding Derivative Instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Long-term liabilities

Management considers the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the annual financial statements to approximate their fair values on 30 June 2016, as a result of the short-term maturity of these assets and liabilities.

No financial instruments of the municipality were reclassified during the year.

The table below analyses financial instruments carried at fair value at the end of the reporting period by the level of fair-value hierarchy as required by GRAP 104. The different levels are based on the extent to which quoted prices are used in the calculation of the fair value of the financial instruments. The levels have been defined as follows:

Level 1: Fair values are based on quoted market prices (unadjusted) in active markets for an identical instrument.

Level 2: Fair values are calculated using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Fair values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation. Also, this category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

**Capital risk management**

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance. The municipality’s overall strategy remains unchanged from 2011.

The capital structure of the municipality consists of debt, which includes the Long-term Liabilities disclosed in note 14, bank, cash and cash equivalents and equity, comprising accumulated Surplus as disclosed in Note 9 and the statement of changes in net assets.

**Gearing ratio**

In terms of the municipality’s five year financial plan, financial benchmarks, year-on-year in respect of the debt-to-equity ratio, is reflected at 100%, decreasing to 90%. This ratio is as a result of the developmental challenges faced by the municipality. Some of the borrowings are below market related rates.

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

### 40. Financial instruments disclosure (continued)

**The gearing ratio at the year-end was as follows:**

| | | |
|---|---|---|
| Debt | 155 407 428 | 166 510 655 |
| Cash and cash equivalents | (258 763 006) | (232 922 238) |
| **Net Debt** | **(103 355 578)** | **(66 411 583)** |
| Equity | 4 033 935 766 | 3 821 205 116 |
| Net debt to equity ratio | (0,03)% | (0,02)% |

Debt is defined as long and short term Liabilities, as detailed in Note 14.

Equity includes all funds and reserves of the municipality, disclosed as net assets in the statement of financial performance and net debt as described above.

**Financial risk management objectives**

The accounting officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IASs mainly apply. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The directorate: Treasury monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports quarterly to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Further quantitative disclosures are included throughout these annual financial statements.

**Significant risks**

It is the policy of the municipality to disclose information that enables the user of its annual financial statements to evaluate the nature and extent of risks arising from financial instruments to which the municipality is exposed on the reporting date.

The municipality has exposure to the following risks from its operations in financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

Risk and exposures are disclosed as follows:

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's income or the value of its holdings in Financial Instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

**Credit risk**

### 40. Financial instruments disclosure (continued)

Credit risk is the risk of financial loss to the municipality if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the municipality's receivables from customers and investment securities.

**Liquidity risk**

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The municipality’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality’s reputation.

Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

Ultimate responsibility for liquidity risk management rests with the council, which has built an appropriate liquidity risk management framework for the management of the municipality’s short, medium and long term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included below is a listing of additional undrawn facilities that the municipality has at its disposal to further reduce liquidity risk.

**Liquidity and interest risk tables**

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts. The following tables detail the municipality’s remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

| 30 June 2016 | 6 Months or less | 6 - 12 Months | 1 - 2 Years | 2 - 5 Years | More than 5 Years | Total |
|---|---|---|---|---|---|---|
| Non-interest bearing | 185 715 629 | - | - | - | - | 185 715 629 |
| Variable interest rate instruments | 18 915 505 | - | - | - | - | 18 915 505 |
| Fixed interest rate instruments | 3 063 785 | - | - | - | - | 3 063 785 |
| | **207 694 919** | **-** | **-** | **-** | **-** | **207 694 919** |

| 30 June 2015 | 6 Months or less | 6 - 12 Months | 1 - 2 Years | 2 - 5 Years | More than 5 Years | Total |
|---|---|---|---|---|---|---|
| Non-interest bearing | 140 377 050 | - | - | - | - | 140 377 050 |
| Variable interest rate instruments | 3 281 879 | - | - | - | - | 3 281 879 |
| Fixed interest rate instruments | 13 014 267 | 13 789 267 | 27 578 533 | 88 053 182 | 176 338 319 | 318 773 568 |
| | **156 673 196** | **13 789 267** | **27 578 533** | **88 053 182** | **176 338 319** | **462 432 497** |

The following table details the municipality’s expected maturity for its non derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the municipality anticipates that the cash flow will occur in a different period.

| 30 June 2016 | 6 Months or less | 6 - 12 Years | 1 - 2 Years | 2 - 5 Years | More than 5 Years | Total |
|---|---|---|---|---|---|---|
| Non-interest bearing | 154 045 729 | - | - | - | - | 154 045 729 |
| Variable interest rate instruments | 15 855 231 | - | - | - | - | 15 855 231 |
| Fixed interest rate instruments | 732 438 | - | - | - | - | 732 438 |
| | **170 633 398** | **-** | **-** | **-** | **-** | **170 633 398** |

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

### 40. Financial instruments disclosure (continued)

| 30 June 2015 | 6 Months or less | 6 - 12 Years | 1 - 2 Years | 2 - 5 Years | More than 5 Years | Total |
|---|---|---|---|---|---|---|
| Non-interest bearing | 224 435 449 | - | - | - | - | 224 435 449 |
| Variable interest rate instruments | 160 666 976 | - | - | - | - | 160 666 976 |
| Fixed interest rate instruments | 732 428 | - | - | - | - | 732 428 |
| | **385 834 853** | **-** | **-** | **-** | **-** | **385 834 853** |

The municipality has access to financing facilities, the total unused amount which is R9,268 million at the balance sheet date. The municipality expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets. The municipality expects to maintain current debt to equity ratio, within 20-25% limits increasing it to 25%. This will be achieved through the issue of new debt and the increased use of secured bank loan facilities.

**Effective interest and repricing analysis**

In accordance with IAS 32.67(a) and (b) the following tables indicate the average effective interest rates of Income earning Financial Assets and Interest?bearing Financial Liabilities at the reporting date and the periods in which they mature or, if earlier, reprice:

| 30 June 2016 | 6 Months or less | 6 - 12 Months | 1 - 2 Years | 2 - 5 Years | More than 5 Years | Total |
|---|---|---|---|---|---|---|
| Notice deposits | 185 734 892 | - | - | - | - | 185 734 892 |
| Call deposits | 36 344 664 | - | - | - | - | 36 344 664 |
| Bank balances and cash | 10 842 683 | - | - | - | - | 10 842 683 |
| **Total variable rate instruments** | **232 922 239** | **-** | **-** | **-** | **-** | **47 187 347** |

| 30 June 2015 | 6 Months or less | 6 - 12 Months | 1 - 2 Years | 2 - 5 Years | More than 5 Years | Total |
|---|---|---|---|---|---|---|
| Notice deposits | 708 687 | - | - | - | - | 708 687 |
| Call deposits | 8 292 741 | - | - | - | - | 8 292 741 |
| Bank balances and cash | 152 374 235 | - | - | - | - | 152 374 235 |
| **Total variable rate instruments** | **160 666 976** | **-** | **-** | **-** | **-** | **160 666 976** |

**Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses other publicly available financial information and its own trading records to assess its major customers. The municipality’s exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of fixed deposit investments, long-term debtors, consumer debtors, other debtors, short-term investment deposits and bank and cash balances.

**Investments/bank, cash and cash equivalents**

The municipality limits its counterparty exposures from its short-term investments (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions short term credit rating of BBB and long-term credit rating of AA- and higher at an International accredited credit rating agency. The municipality’s exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst different types of approved investments and institutions, in accordance with it’s investment policy. Consequently, the municipality is not exposed to any significant credit risk.

**Trade and other receivables**

### 40. Financial instruments disclosure (continued)

Trade and other receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and sanitation services rendered to them.

Trade receivables consist of a large number of customers, spread across diverse industries in the geographical area of the municipality. Periodic credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee is increased accordingly.

Consumer receivables comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Consumer debtors are presented net of a provision for impairment.

In the case of receivables whose accounts become in arrears, it is endeavoured to collect such accounts by “levying of penalty charges”, “demand for payment”, “restriction of services” and, as a last resort, “handed over for collection”, whichever procedure is applicable in terms of council’s credit control and debt collection policy.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

1. The application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property

2. A new owner is advised, prior to the issue of a rates clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount

3. The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA

4. The requirement of a deposit for new service connections, serving as guarantee;

5. Encouraging residents to install water management devices that control water flow to households, and/or prepaid meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality’s maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer

Long-term receivables and other debtors are individually evaluated annually at statement of financial position date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment/discounting, where applicable.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities.

The table below shows the balance of the 5 major counterparties at the balance sheet date. Management is of the opinion that, although these parties are the 5 counterparties with highest outstanding balances, no significant credit risk exposure exists, based on the payment history of the parties.

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

### 40. Financial instruments disclosure (continued)

| Counterparty and Location | | |
|---|---|---|
| Ukusa River Estate Development | - | 1 273 600 |
| Harry Gwala District Municipality | 1 364 670 | - |
| Ithala Developments Finance Corporation | - | 734 982 |
| Murchison Hospital | 1 719 169 | - |
| SA Police (Jail) | 1 356 171 | - |
| Smithchem (Pty) Ltd | - | 978 989 |
| Umzumbe Glades Body Corporate | 954 176 | - |
| Blue Marlin Hotel | 941 246 | 950 284 |
| Lourens De Jager Coetzer | - | 680 477 |
| | **6 335 432** | **4 618 332** |

Except as detailed in the following table, the carrying amount of financial assets recorded in the annual financial statements, which is net of impairment losses, represents the municipality's maximum exposure to credit risk without taking account of the value of any collateral obtained:

| | | |
|---|---|---|
| Investments | 200 | 200 |
| Long-term receivables | 303 589 | 321 188 |
| Consumer debtors | 296 373 620 | 264 231 971 |
| Other debtors | 19 090 744 | 1 204 252 |
| Bank, cash and cash equivalents | 430 308 535 | 259 074 427 |
| | **746 076 688** | **524 832 038** |

The major concentrations of credit risk that arise from the municipality's receivables in relation to customer classification are as follows:

| Consumer debtors | | |
|---|---|---|
| Household | 77,00 % | 75,00 % |
| Industrial/Commercial | 18,00 % | 17,00 % |
| National and Provincial Government | 4,00 % | 5,00 % |
| Other debtors | 1,00 % | 3,00 % |
| | **100,00 %** | **100,00 %** |

| Bank and cash balances | | |
|---|---|---|
| ABSA Bank | 91 468 011 | 47 164 171 |
| First National Bank of SA Limited | 65 018 578 | 45 018 266 |
| Nedbank | 30 000 000 | 30 000 000 |
| Investec Bank | 40 000 000 | 65 000 000 |
| Ithala Bank | - | 734 892 |
| Standard Bank | 30 000 000 | 45 000 000 |
| Cash equivalents | 4 967 | 4 910 |
| | **256 491 556** | **232 922 239** |

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

### 41. Multi-employer retirement benefit information

The municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes.

Councillors have the option to belong to the Pension Fund for Municipal Councillors.

All full-time employees belong to the KwaZulu-Natal Joint Municipal Pension Fund, which are made up of the Retirement, Superannuation and Provident Funds.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors/employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

**Defined benefits schemes**

**Retirement fund**

The scheme is subject to a tri-annual actuarial valuation. The last statutory actuarial valuation was performed as at 31 March 2012 by Arthur Els & Associates.

The statutory actuarial valuation performed as at 31 March 2012 revealed that the fund had a shortfall of R251,5 (31 March 2011: shortfall of R382,3) million, with a funding level of 82,0%(31 March 2011: 84,1%). The contribution rate, including the surcharges below, paid by the members (8,65%) and municipalities (34,22%) was expected to eradicate the shortfall in the fund by 31 March 2015. However, the basic contribution payable is 4,72% less than the required contribution rate.

The actuarial shortfall is taken into account by determining surcharges, to be met by increased contributions. These surcharges amount to 17% of pensionable emoluments, of which 1,65% is payable by members and 15,35% is payable by the local authority.

This surcharge is payable until 31 March 2015. It is necessary that the basic employer contribution be increased by 4,72% to 18,37% and the surcharge be increased to 15,85% (Total employer contribution of 34,22%) and extended by a further 3 years to 31 March 2018. This position will be monitored on an annual basis. Subsequently, notice has been served that the surcharge will be increased to 15,85% with effect from 1 July 2012 for an indefinite period of time. The fund has effectively been closed to new members, and it is therefore assumed for the valuation, that no new members will join the fund. However, at present, members of the three Natal Joint Funds are permitted to transfer between the funds and this flow of members may affect the rate of contribution required to be paid to the Fund. It is intended that the Fund merge with the Superannuation Fund in the near future.

**Superannuation fund**

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2012 by Arthur Els & Associates.

The interim actuarial valuation performed as at 31 March 2012 revealed that the fund had a shortfall of R270,0 (31 March 2011: R549,5) million, with a funding level of 96,0% (31 March 2011: 90,9%). The contribution rate paid by the members (9,25%) and municipalities (18,00%) is 3,63% (31 March 2011: 3,63%) less than the required contribution rate for future service and will be reviewed at the next interim valuation. The deficit in respect of active members is being met by a surcharge of 9,5% of pensionable salaries to meet the shortfall within the 8 year period provided for in the scheme. It was expected that the deficit will be fully funded by 2020.

This surcharge is payable until 31 March 2020. It is necessary that the basic employer contribution be increased by 3,63% to 21,63% and the surcharge be increased to 9,5% and extended by a further 8 years to 31 March 2020. This position will be monitored on an annual basis. Subsequently, notice has been served that the surcharge will be increased to 31,13% with effect from 1 July 2012 for an indefinite period of time.

It is intended that the fund merge with the retirement fund in the near future.

**Defined contribution schemes**

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

### 41. Multi-employer retirement benefit information (continued)

Municipal councillors pension fund.

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 31 March 2012.

The statutory valuation performed as at 30 June 2011 revealed that the market value of the fund was R1 446,8 (30 June 2010: R1 446,8) million. The contribution rate paid by the members (13,75%) and Council (15,00%) is sufficient to fund the benefits accruing from the fund in the future.

As reported by the actuaries, the fund was in a sound financial condition as at 30 June 2014.

**Provident fund**

The scheme is subject to a tri-annual actuarial valuation. The last statutory actuarial valuation was performed as at 31 March 2012 by Arthur Els & Associates.

The statutory actuarial valuation performed as at 31 March 2012 revealed that the market value of the fund was R1 293,4 (31 March 2011: R1 056,2) million. The contribution rate payable (either 5,00%, 7,00% or 9,25% by the member and 1,95 times the member’s contributions by the employer), is sufficient to cover the cost of benefits and expenses and the fund was certified to be in sound financial condition as at 31 March 2012.

### 42. Commitments

**Authorised capital expenditure**

| | 2016 | 2015 |
|---|---|---|
| **Already contracted for but not provided for** | | |
| • Property, plant and equipment | 269 684 073 | 474 702 180 |
| • Other | 7 645 773 | 7 308 871 |
| | **277 329 846** | **482 011 051** |
| **Not yet contracted for and authorised by accounting officer** | | |
| • Property, plant and equipment | 44 297 893 | 60 641 465 |
| • Investment property | - | 6 050 023 |
| | **44 297 893** | **66 691 488** |
| **Total capital commitments** | | |
| Already contracted for but not provided for | 277 329 846 | 482 011 051 |
| Not yet contracted for and authorised by accounting officer | 44 297 893 | 66 691 488 |
| | **321 627 739** | **548 702 539** |
| **This expenditure will be financed from:** | | |
| Government Grants | 321 627 739 | 535 343 645 |
| Own Resources | - | 13 358 894 |
| | **321 627 739** | **548 702 539** |

**Total commitments**

| | 2016 | 2015 |
|---|---|---|
| **Total commitments** | | |
| Authorised capital expenditure | 321 627 739 | 548 702 539 |

## Notes to the Financial Statements

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

### 43. Contigent assets and contigent liabilities

**Guarantees:**

| | | |
|---|---|---|
| i) Hibiscus Coast Municipality: The Municipality issued a bank guarantee in favour of Hibiscus Coast Municipality in lieu of a deposit on the electricity accounts of the Municipality. | 10 000 | 10 000 |
| (ii) Eskom: The Municipality issued a bank guarantee in favour of Eskom to cover deposits on the electricity accounts of the Municipality. | 2 852 000 | 2 852 000 |
| (iii)South African Post office:The municipality issued a bank guarantee in favour of South African Post office. | 200 000 | 200 000 |
| | **3 062 000** | **3 062 000** |

**Court proceedings**

| | | |
|---|---|---|
| (i) Alleged Breach of Contract: Council has been involved in a court case with Thumbprint Events Management, where it is alleged that the Municipality has unilaterally repudiated a contract. Applicant is claiming unpaid invoices and damages in terms of what would have been due to them had the contract not been repudiated by the Municipality. The Municipality is defending this action and awaits a court date. The total claim is valued at R875 258. 46 plus 30% of envisaged gate takings for two events and 25% of sale of floor space for two events (excluding VAT). The Municipality is currently negotiating a settlement with the Applicant and the matter is expected to be finalised by 30 June 2016. | 875 248 | 875 248 |
| (ii)The Municipality is enjoined with Umzumbe Municipality in litigation with MP & RV Conco regarding alleged illegal encroachment by the Municipalities. The applicants are wanting rehabilitation of their land. Costs are not yet determinable. | - | - |
| (iii) The parent municipality of the entity mandated consultants to assist in regularising their Value Added Taxation affairs. Upon conclusion of the said assignment, an ancillary finding was communicated to the parent, by the consultants, in that the grant funding charged out by the entity should indeed be Vatable. The entity has never levied Value Added Taxation on grants. The directors do not agree with the opinion of the consultants and have initiated steps to obtain a direct ruling from the South African Revenue Services. In any case, there is no loss to the fiscus as any possible effects are inter-governmental with all output directly corresponding with equal and opposite inputs on the governmental partner. Furthermore, the entity has been audited directly and specifically by the South African Revenue Services on it`s grants and no findings were made. | - | - |
| iv) Due to a vat query raised by KPMG in October 2015 with regards to Ugu District Municipality, Ugu - South Coast Tourism logged a VAT rulling request with SARS, regarding whether the grant funding paid to municipal entities should be raised including vat or at the zero rate, which has been the case since the inception of the entity in 2009. To date, there has been no written confirmation on this matter however, in reviewing the VAT Act, it does appear that grant funding to municipal entities should include vat at 14%. | 7 004 003 | - |
| | **7 879 251** | **875 248** |

**Contingent assets**

| | | |
|---|---|---|
| i) Due to a vat query raised by KPMG in October 2015 with regards to Ugu District Municipality, Ugu - South Coast Tourism logged a VAT rulling request with SARS, regarding whether the grant funding paid to municipal entities should be raised including vat or at the zero rate, which has been the case since the inception of the entity in 2009. To date, there has been no written confirmation on this matter however, in reviewing the VAT Act, it does appear that grant funding to municipal entities should include vat at 14%. | 7 004 003 | - |

# Notes to the Financial Statements

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

### 44. Related parties

**Relationships**

| | |
|---|---|
| Accounting Officer | Refer to accounting officer's report note |
| 100% Owned Company (Ugu District Municipality Entity) | Ugu South Coast Tourism (Pty) Ltd |
| 100% Owned Company (Ugu District Municipality Entity) | South Coast Development Agency NPC |
| Henderson (Ugu Councillor) | Barry Botha & Breytenbach Inc. |

The municipality procured goods and/or services from the following companies, which are considered to be related parties:

**Related party transactions**

| Purchases from (sales to) related parties | 2016 | 2015 |
|---|---|---|
| Ugu South Coast Tourism (Pty) Ltd | 11 595 930 | 11 043 743 |
| South Coast Development Agency NPC | 5 250 000 | 5 000 000 |
| Barry Botha & Breytenbach Inc. | - | 105 550 |
| | **16 845 930** | **16 149 293** |

The transactions were concluded in full compliance with the municipality's Supply Chain Management Policy and the transactions are considered to be at arm's length.

### 45. Prior period errors

Corrections were made during the previous financial years. Details of the corrections are described below:

| Property, Plant and Equipment | Year | Land and Buildings | Movables | Infrastructure | Total |
|---|---|---|---|---|---|
| Reported Amount | 2014/15 | 148 278 443 | 41 229 274 | 3 400 410 038 | 3 589 917 755 |
| Correction of error | 2014/15 | - | - | 206 433 405 | 206 433 405 |
| **Restated Closing Balance** | | **148 278 443** | **41 229 274** | **3 606 843 443** | **3 796 351 160** |

The correction in the prior year error relates the infrastructure assets that were found on the ground that were never brought to the FAR (Fixed Asset Register).

| Payables from exchange transactions (Workmans compensation accrual) | 2016 | 2015 |
|---|---|---|
| Reported Amount | - | 149 683 332 |
| Correction of error | - | 3 781 233 |
| **Restated Closing Balance** | **-** | **153 464 565** |

During the financial period, it was noted that workmans compansation fund has been for financial period 2014/15 was only paid during 2015/16 financial period and there was no accrual for the balance in the 2014/15.

| Statement of financial position | |
|---|---|
| Property, plant and equipment | 206 433 405 |
| Payables from exchange transactions (sundry accruals) | (3 781 233) |
| | **202 652 172** |

| Statement of Financial Performance | |
|---|---|
| Depreciation expense | 22 094 643 |
| General expenses (Workmans compensation) | 1 321 130 |
| | **23 415 773** |

### 46. Comparative figures

The comparative figures were restated as a result of the effect of Prior Period Errors.

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

### 47. Going concern

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

### 48. Unauthorised expenditure

| | | |
|---|---|---|
| Opening balance | 310 376 720 | 36 582 590 |
| Unauthorised expenditure for the year | 113 949 531 | 273 794 130 |
| Unauthorised expenditure written-off during the year | (310 376 720) | - |
| | **113 949 531** | **310 376 720** |

**Incident**

Budgeted amounts exceeded:

Disciplinary steps/ criminal proceedings: Investigations are being conducted by the internal audit.

| | | |
|---|---|---|
| Personnel (Employee costs) | - | 8 200 248 |
| Depreciation and amortisation | 75 598 213 | 107 555 977 |
| Impairment loss | 37 079 215 | 140 905 659 |
| Repairs and maintenance | - | 12 932 246 |
| Fair value adjustment | - | 4 200 000 |
| Lease rentals on operating lease | 1 100 086 | - |
| Bad debts written-off | 172 017 | - |
| | **113 949 531** | **273 794 130** |

### 49. Fruitless and wasteful expenditure

| | | |
|---|---|---|
| Opening balance | 3 212 403 | 2 690 035 |
| Fruitless and wasteful expenditure - Interest on late payment | 35 228 | 522 368 |
| - Legal fees | 37 276 | - |
| - Interest on legal fees | 340 958 | - |
| - Penalties | 45 773 | - |
| Fruitless and wasteful expenditure written-off | (3 212 403) | - |
| | **459 235** | **3 212 403** |

Disciplinary steps/criminal proceedings:

Investigations are being conducted by internal audit on the "fruitless and wasteful expenditure" for the current year.

Disciplinary action is in progress for the prior year's fruitless and wasteful.

### 50. Irregular expenditure

| | | |
|---|---|---|
| Opening balance | 151 888 760 | 242 919 032 |
| Add: Irregular Expenditure - current year | 18 830 047 | 40 350 455 |
| Less: Amounts written-off | (16 124 725) | (131 380 727) |
| | **154 594 082** | **151 888 760** |

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

### 50. Irregular expenditure (continued)

**Details of irregular expenditure – current year**

| | Disciplinary steps taken/criminal proceedings | |
|---|---|---|
| Expenditure contrary to the provisions of Regulation 44 of the Municipal Supply Chain Management Regulations | A report will be adopted by the Executive Committee, writting-off the "Irregular Expenditure". | 5 509 172 |
| Expenditure according to the provisions of Regulation 36 of the Municipal Supply Chain Management Regulations | Investigations are conducted by an internal audit. | 37 000 |
| | | **5 546 172** |

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

**50. Irregular expenditure (continued)**

| Department | Date | Successful tenderer | Reason | Amount |
|---|---|---|---|---|
| Municipal Manager's Office | | Wild Ginger Creative Consulting (Pty) Ltd | Additional copies to be made for the council meeting | 37 000 |

Furthermore, the municipality has made the following awards to persons in service of Government institutions contrary to the provisions of paragraphs 44 of the Municipal Supply Chain Management Regulations:

| Company Name | Related Person | Municipal Capacity | Purchases for the year | Purchases for the Year |
|---|---|---|---|---|
| Thubalam Trading | RL Nzengwa | EC: Roads and Public Works | 414 115 | 4 246 326 |
| Arch Actuarial Cons | C Wiess | Human Science Research Council | 9 120 | 8 436 |
| Business Connexion | NN Kekana | Gauteng Film Commission | 995 064 | 453 281 |
| Eaton Electric South Africa Pty Ltd | FC Cambell Jr | South African Weather Service | - | 21 314 |
| Macsteel Fluid Control | DD Mokgatle | State Diamond Trader | - | 129 760 |
| Minolco (Pty) Ltd | KR Mthimunye | State Information Technology Agency | 107 643 | 86 809 |
| Musakhe Trading | NP Chiliza | KZN: Education | - | 150 000 |
| Nashua Communications | D Nchoba | NAT: Arts & Culture | 645 918 | 1 063 205 |
| WCO Africa (Pty) Ltd T/A SANI | TS Setshedi | Tshwane Universitity Of Technology | 1 238 441 | 1 060 372 |
| Gezinsila Labour & Protection Services | PA Mfeka | Transnet Tfr | 554 915 | 674 342 |
| Lamsta Suppliers And Projects | MZ Ndabankulu | Ec: Rural Dev & Agrarian Reform | - | 485 768 |
| Iphiko Lempilo Supplies Pty Ltd | PZ Nong | KZN: Health | - | 72 000 |
| Illovo Sugar Ltd | M Hankinson | Transnet Group | 383 430 | 439 169 |
| Aurecon Sa (Pty) Ltd | Z Ebrahim | Social Housing Regulatory Authority | 895 568 | - |
| St Michaels Sands Hotel | YS Song | Ithala Development Finance Corporation Ltd | - | 16 600 |
| Bigen Africa Services (Pty) Ltd | J Botha | Development Bank Of Southern Africa | - | 656 097 |
| Pricewaterhousecoopers Combined Systems Pty Ltd | PJ Mothibe | Independent Regulatory Board For Auditors | 15 219 | 112 363 |

## Notes to the Financial Statements

| Figures in Rand | | | 2016 | 2015 |
|---|---|---|---|---|
| **50. Irregular expenditure (continued)** | | | | |
| Consolidated African Technolog | SS Ntsaluba | National Energy Regulator Of South Africa | 157 889 | 141 075 |
| CQS Technology Holdings | IB Skosana | Transnet Group | 91 851 | 275 035 |
| | | | **5 509 173** | **10 091 952** |

### 51. Water losses

| | 2016 | 2015 |
|---|---|---|
| **Water losses** | | |
| Unaccounted water losses | 27 141 118 | 28 211 242 |

Water losses occur due to inter alia, leakages, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal water connections. The problem with tempered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters and leakages are replaced/repaired as soon as they are reported.

A five-year strategic non-revenue water reduction was adopted and implemented by the Executive Committee in May 2014. The below-mentioned technical information was derived at as part of the implementation plan:

| | 2016 | 2015 |
|---|---|---|
| **Volumes in ML/year:** | | |
| System input volume | 41 840 | 41 229 |
| Billed authorised consumption | 30 760 | 28 992 |
| Unbilled authorised consumption | 207 | 326 |
| Apparent losses | 3 423 | 3 487 |
| Real losses | 7 450 | 8 423 |
| Estimated non-revenue water | 11 080 | 12 237 |
| | **94 760** | **94 694** |

| | 2016 | 2015 |
|---|---|---|
| Number of connections | 44 605 | 43 450 |

| | 2016 | 2015 |
|---|---|---|
| Real losses % | 17,81 % | 22,28 % |
| Water losses % | 25,99 % | 27,90 % |
| Non-revenue water % | 26,48 % | 28,53 % |
| | **70,28 %** | **78,71 %** |

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

**Contributions to organised local government**

| | 2016 | 2015 |
|---|---|---|
| Current year subscription / fee | 2 673 470 | 2 038 851 |
| Amount paid - current year | (2 673 470) | (2 038 851) |
| | - | - |

No amounts were outstanding at the end of the financial year.

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

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

**Audit fees**

| | | |
|---|---|---|
| Opening balance | - | 368 161 |
| Current year subscription / fee | 3 090 207 | 2 384 650 |
| Amount paid - current year | (3 090 207) | (2 384 650) |
| Amount paid - previous years | - | (368 161) |
| | **-** | **-** |

No amounts were outstanding at the end of the financial year.

**PAYE, Skills Development Levy and UIF**

| | | |
|---|---|---|
| Current year subscription / fee | 40 363 103 | 40 340 203 |
| Amount paid - current year | (36 880 324) | (40 340 203) |
| | **3 482 779** | **-** |

No amounts were outstanding at the end of the financial year.

**Pension and Medical Aid Deductions**

| | | |
|---|---|---|
| Current year subscription / fee | 63 100 259 | 56 522 612 |
| Amount paid - current year | (63 100 259) | (56 522 612) |
| | **-** | **-** |

No amounts were outstanding at the end of the financial year.

**VAT**

| | | |
|---|---|---|
| VAT receivable | 36 466 126 | - |
| VAT payable | - | 855 061 |
| | **36 466 126** | **855 061** |

VAT output payables and VAT input receivables are shown in note 7 & 52.

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

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

**Councillors' arrear consumer accounts**

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2016:

| 30 June 2016 | Outstanding less than 90 days R | Outstanding more than 90 days R | Total R |
|---|---|---|---|
| Councillor VL Ntanza | 2 749 | 6 961 | 9 710 |
| Councillor ST & PY Gumede | 2 161 | 1 598 | 3 759 |
| Councillor ST Gumede | 119 | 198 | 317 |
| Councillor TN Dzingwa | 1 165 | 93 | 1 258 |
| Councillor NH Gumede | 2 591 | - | 2 591 |
| Councillor NA Madlala | 123 | - | 123 |
| Councillor MA & ZP Chiliza | 166 | - | 166 |
| Councillor MJ Sibango | 972 | - | 972 |
| Councillor Y Nair | 1 521 | - | 1 521 |
| Councillor SM Zuma | 79 | - | 79 |
| Councillor IM Mavundla | 57 | - | 57 |
| Councillor SB & SP Cele | 41 | - | 41 |
| | **11 744** | **8 850** | **20 594** |

| 30 June 2015 | Outstanding less than 90 days R | Outstanding more than 90 days R | Total R |
|---|---|---|---|
| Councillor VL Ntanza | 1 138 | 1 219 | 2 357 |
| Councillor TN Dzingwa | 754 | 1 824 | 2 578 |
| Councillor NA Madlala | 116 | - | 116 |
| Councillor NH Gumede | 1 794 | - | 1 794 |
| Councillor ST Gumede | 111 | 779 | 890 |
| Councillor SB & SP Cele | - | 5 072 | 5 072 |
| Councillor ST & PY Gumede | 422 | 3 115 | 3 537 |
| Councillor SM Mohaned | 819 | - | 819 |
| | **5 154** | **12 009** | **17 163** |

### 53. VAT payable

| | 2016 | 2015 |
|---|---|---|
| Tax refunds payables | - | 855 061 |

Vat is payable on payment basis. Once payment is received from customers/receivables, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are effected before the due date.

### 54. Change in estimate

**Property, plant and equipment**

The useful life of certain property plant and equipment items was estimated in prior periods was revised during the current period by the management.

### 55. Events after the reporting date

In terms of section 12 of the Local Government Municipal Structures Act, No 117 of 1998; 3,5 wards will be transferred to Ethekwini Municipality effective from the 10th August 2016.

**56. Actual operating expenditure versus budgeted operating expenditure**

It is general practice to deem that a 10% deviation on operational revenue and expenditure versus the final budget as material.

1. Service charges (-32%). The billed revenue was less than anticipated due to a less connections.

2. Rental of Facilities and Equipment (-40%). The lease agreement for Ugu Markets were not renewed.

3. Interest Earned (41%). More investment income was earned from notice deposits accounts at favourable rates.

4. Other revenue (-47%). Grant rollovers were budgeted as part of other income as Provincial Treasury request.

5. Remuneration for councillors (19%). The subsistence allowance for councillors was over budgeted as it was anticipated that councillors would travel more often as this was the elections period. However the election date was postponed.

6. Lease rentals from operating leases (-116%). There were new photocopiers and scanners leased during the period.

7. Depreciation and amortisation (-65%). More assets were identified through the asset verification project and updated in the FAR.

8. Impairment loss (-161%). Increase in debtors impairment provision is due to the pending results of the meter audit.

9. Finance costs (48%). No new loans were taken during the financial year under review. Finance lease for motor cars were fully paid.

10. Contracted servcices (11%). Less maintenance work was outsourced during the year under review.

11. Grants and Subsidies paid (62%). Less as the actual figures does not include the indigent support and free basic services.

12. General expenses (17%). The municipality implemented some cost cutting measure, especially of the non-core related expenses.

Refer to Appendix D1 for the comparison of actual operating expenditure versus budgeted expenditure.

**57. Actual capital expenditure versus budgeted capital expenditure**

Refer to Appendix D2 for the comparison of actual capital expenditure versus budgeted expenditure.

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

### 58. S36 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  and includes a note to the financial statements.

Deviations from the tender stupulations in terms of the municipality's Supply Chain Management Policy were presented to the Executive Committee, which condoned the various cases.

| **Department - June 2016** | Reason | Sub-section | Amount |
| --- | --- | --- | --- |
| Water Services | Sole Supplier | S36(ii) | 56 440 |
| Corporate Services | Extention of security tender | S36(ii) | 8 235 384 |
| Corporate Services | Emergency | S36(ii) | 4 836 471 |
| Corporate Services | Agent | S36(ii) | 150 000 |
| | | | **13 278 295** |

| **Department - June 2015** | Reason | Sub-section | Amount |
| --- | --- | --- | --- |
| Corporate Services | Agent | S36(ii) | 950 000 |
| Water Services | Emergency | S36(ii) | 3 814 351 |
| Treasury | Sole Supplier | S36(ii) | 121 713 |
| | | | **4 886 064** |

In terms of section 36(2) of the Supply Chain Management Policy approved by Council it is stipulated that bids where the formal procurement processes could not be followed, must be noted in the financial statements.

The majority of the items mentioned resulted from flood damage that had to be addressed at short notice and the response times did not allow for the complete procurement process to be followed.  The balance of items was due to emergency circumstances and economic benefits for the municipality.

Deviations from the tender stipulations in terms of the municipality's Supply Chain Management Policy were presented to the Executive Committee, which condoned the various cases.