UMZINYATHI DISTRICT MUNICIPALITY

Annual Financial Statements
for the year ended 30 June 2016

General Information

Mayoral committee	
Mayor	Cllr. L.W.S Ngubane
Councillors	Cllr. N.J. Mbatha-Madonsela
	Cllr. B.S. Chambule
	Cllr. L.D. Ngubane
	Cllr. N.C. Xaba
	Cllr. M.S. Yengwa
	Cllr. N.N. Khanyile
	Cllr. I. Bedassi
	Cllr. N.P. Zulu
	Cllr. X.S. Xaba
	Cllr. P.M. Ngobese
	Cllr. T.M. Mahaye
	Cllr. J. Mfeka
	Cllr. Z.G. Ngcobo
	Cllr. T. Ngubane
	Cllr. V.B. Ntombela
	Cllr. N.S.V. Machaba
	Cllr. F.J. Sikhakhane
	Cllr. B.P. Ngcobo
	Cllr. E.N. Molefe
	Cllr. M.E. Mnguni
	Cllr. M. Mkhwanazi
	Cllr. B.N. Zondi
	Cllr. L.G. Mabaso
	Cllr. R.N. Ngubane
Speaker of the Executive Committee	Cllr. B.S. Chambule
Grading of local authority	Grade 4
Accounting Officer	Dr. E.M.S. Ntombela
Registered office	39 Victoria Street Princess Magogo Building Dundee 3000
Postal address	PO Box 1965 Dundee 3000
Telephone number	034 219 1500
Website & E-mail address	www.umzinyathi.gov.za r3c@umzinyathi.gov.za
Bankers	First National Bank
Auditors	Auditor General

Index

The reports and statements set out below comprise the annual 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)
WIP	Work In Progress

Accounting Officer's Responsibilities and Approval

I am responsible for the preparation of these annual financial statements, which are set out on pages 4 to 66, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality. I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 26 of these annual financial statements 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.

Dr. E.M.S. Ntombela
Municipal Manager

Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015 Restated*
Assets			
Current Assets			
Inventories	2	690 984	818 029
Receivables from non-exchange transactions	3	9 167 057	9 009 324
VAT receivable	4	12 889 752	8 050 663
Consumer debtors	5	62 043 236	48 562 618
Cash and cash equivalents	6	60 935 336	57 974 458
		145 726 365	**124 415 092**
Non-Current Assets			
Investment property	7	894 786	944 620
Total depreciation and amortisation	8	35 677 331	34 247 464
Infrastructure	9	1 631 099 689	1 453 899 285
Intangible assets	10	142 583	167 791
Interest in joint ventures	11	339 334 826	377 542 226
		2 007 149 215	**1 866 801 386**
Total Assets		**2 152 875 580**	**1 991 216 478**
Liabilities			
Current Liabilities			
Short term portion: of long term liability	12	9 797 079	91 868 882
Payables from exchange transactions	14	64 087 844	49 905 264
Consumer deposits	15	491 712	534 501
Unspent conditional grants and receipts	16	17 361 859	4 717 603
		91 738 494	**147 026 250**
Non-Current Liabilities			
Long term liability	13	66 273 785	68 536 536
Employee benefit obligation	17	25 498 000	18 190 000
		91 771 785	**86 726 536**
Total Liabilities		**183 510 279**	**233 752 786**
Net Assets		**1 969 365 301**	**1 757 463 692**
Reserves			
Other NDR		698 434 731	698 434 731
Accumulated surplus		1 270 930 570	1 059 028 961
Total Net Assets		**1 969 365 301**	**1 757 463 692**

* See Note 34

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	18	44 198 765	55 774 979
Rental of facilities and equipment	19	473 359	332 688
Interest earned- outstanding debtors	20	19 920 325	16 547 942
Other income	21	275 964	2 524 736
Interest earned- investments	22	8 007 817	7 160 351
Total revenue from exchange transactions		**72 876 230**	**82 340 696**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	23	708 581 633	494 203 601
Total revenue	24	**781 457 863**	**576 544 297**
Expenditure			
Employee related costs	25	(104 990 710)	(93 545 298)
Remuneration of councillors	26	(3 982 550)	(4 037 642)
Depreciation and amortisation	27	(63 750 525)	(56 317 390)
Impairment loss		(442 850)	-
Finance costs	13&28	(3 774 904)	(7 812 811)
Provision for debt impairment	5&29	(30 932 106)	(54 259 072)
Post Retirement Benefits	17	(7 586 165)	(2 908 029)
Repairs and maintenance	30	(9 989 248)	(9 910 080)
Bulk purchases	31	(11 366 985)	(14 627 998)
Grants and Subsidies	32	(135 648 085)	(75 459 854)
General Expenses	33	(158 041 602)	(145 761 286)
Total expenditure		**(530 505 730)**	**(464 639 460)**
Operating surplus		**250 952 133**	**111 904 837**
Investment in joint venture		(38 207 401)	25 009 417
Surplus for the year		**212 744 732**	**136 914 254**

* See Note 34

Statement of Changes in Net Assets

Figures in Rand	Other reserves	Accumulated surplus	Total net assets
Opening balance as previously reported	698 434 731	851 528 363	1 549 963 094
Adjustments			
Prior year adjustments	-	70 586 344	70 586 344
Balance at 01 July 2014 as restated*	**698 434 731**	**922 114 707**	**1 620 549 438**
Changes in net assets			
Surplus for the year	-	136 914 254	136 914 254
Total changes	-	136 914 254	136 914 254
Opening balance as previously reported	698 434 731	1 059 028 961	1 757 463 692
Adjustments			
Prior year adjustments	-	(843 123)	(843 123)
Restated* Balance at 01 July 2015 as restated*	**698 434 731**	**1 058 185 838**	**1 756 620 569**
Changes in net assets			
Surplus for the year	-	212 744 732	212 744 732
Total changes	-	212 744 732	212 744 732
Balance at 30 June 2016	**698 434 731**	**1 270 930 570**	**1 969 365 301**
Note(s)		34	

* See Note 34

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		25 382 801	31 629 010
Grants		719 463 508	488 964 609
Interest income		8 007 817	7 160 351
Other receipts		473 359	853 404
		753 327 485	528 607 374
Payments			
Employee costs		(109 236 311)	(97 582 938)
Suppliers		(312 542 984)	(234 671 644)
		(421 779 295)	(332 254 582)
Net cash flows from operating activities	35	**331 548 190**	**196 352 792**
Cash flows from investing activities			
Purchase of total depreciation and amortisation	8	(6 802 121)	(5 598 299)
Proceeds from sale of total depreciation and amortisation	8	704 828	101 518
Purchase of other intangible assets	10	(14 842)	(67 746)
Proceeds from sale of other intangible assets	10	2 650	-
Proceeds from sale of financial assets		-	16 002 506
Proceeds from sale of infrastructure assets		777 325	-
Purchase of infrastructure assets	9	(237 408 445)	(135 419 082)
Net cash flows from investing activities		**(242 740 605)**	**(124 981 103)**
Cash flows from financing activities			
Movement in short term portion: of long term liabilities		(82 071 803)	(107 140 038)
Finance costs		(3 774 904)	(7 812 811)
Net cash flows from financing activities		**(85 846 707)**	**(114 952 849)**
Net increase/(decrease) in cash and cash equivalents		**2 960 878**	**(43 581 160)**
Cash and cash equivalents at the beginning of the year		57 974 458	101 555 618
Cash and cash equivalents at the end of the year	6	**60 935 336**	**57 974 458**

* See Note 34

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reason for variance
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	54 837 868	(5 303 850)	**49 534 018**	44 198 765	**(5 335 253)**	Drought impacted on certain areas where services were not provided.
Rental of facilities and equipment	345 583	260 395	**605 978**	473 359	**(132 619)**	Settling of outstanding payments resulted in the increase in the adjustment budget, which resulted in over budgeting.
Interest earned- outstanding debtors	3 895 894	15 277 961	**19 173 855**	19 920 325	**746 470**	Low collection rate on domestic consumers, result on high billing on interest.
Other income	289 579	171 804	**461 383**	275 964	**(185 419)**	Decrease in sale of tender documents.
Interest received - investment	4 796 463	1 789 722	**6 586 185**	8 007 817	**1 421 632**	Rate variance and period differences.
Total revenue from exchange transactions	**64 165 387**	**12 196 032**	**76 361 419**	**72 876 230**	**(3 485 189)**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	665 657 000	71 987 343	**737 644 343**	708 581 633	**(29 062 710)**	Receipts received towards end of the year.
Total revenue	**729 822 387**	**84 183 375**	**814 005 762**	**781 457 863**	**(32 547 899)**	
Expenditure						
Personnel	(115 281 091)	10 751 251	**(104 529 840)**	(104 990 710)	**(460 870)**	Over-time for Water services staff.
Remuneration of councillors	(4 021 992)	(285 647)	**(4 307 639)**	(3 982 550)	**325 089**	Mayor resigned.

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reason for variance
Depreciation and amortisation	(61 236 849)	6 478 833	**(54 758 016)**	(63 750 525)	**(8 992 509)**	Most of the office furniture has fully depreciated.
Impairment loss	-	-	**-**	(442 850)	**(442 850)**	
Finance costs	(999 650)	(4 161 627)	**(5 161 277)**	(3 774 904)	**1 386 373**	Interest paid differed from the amortisation schedule when budget was prepared.
Provision for bad debts	(33 127 080)	-	**(33 127 080)**	(30 932 106)	**2 194 974**	Provision only calculated based on consumer debts only, for more than 150 days.
Post Retirement Benefits	(3 149 000)	-	**(3 149 000)**	(7 586 165)	**(4 437 165)**	Change in assumptions of calculation of post retirement benefits.
Repairs and maintenance	(11 517 626)	143 335	**(11 374 291)**	(9 989 248)	**1 385 043**	Some assets were disposed off.
Bulk purchases	(16 157 339)	4 500 000	**(11 657 339)**	(11 366 985)	**290 354**	Due to drought within the District.
Transfers and Subsidies	(425 283 000)	(71 974 343)	**(497 257 343)**	(433 024 639)	**64 232 704**	Inclusive of transfers to assets as work in progress and completed assets.
General Expenses	(116 887 161)	(52 209 352)	**(169 096 513)**	(157 771 524)	**11 324 989**	Based on demand.
Total expenditure	**(787 660 788)**	**(106 757 550)**	**(894 418 338)**	**(827 612 206)**	**66 806 132**	
Operating deficit	**(57 838 401)**	**(22 574 175)**	**(80 412 576)**	**(46 154 343)**	**34 258 233**	
Interest in joint venture	-	-	**-**	(38 207 401)	**(38 207 401)**	
Deficit before taxation	**(57 838 401)**	**(22 574 175)**	**(80 412 576)**	**(84 361 744)**	**(3 949 168)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(57 838 401)**	**(22 574 175)**	**(80 412 576)**	**(84 361 744)**	**(3 949 168)**	

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

1.1 Going concern assumption

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

1.2 Mergers

Definitions

A merger is the establishment of a new combined municipality in which none of the former entities obtain control over any other and no acquirer can be identified.

Merger date is the date on which entities are combined for the mutual sharing of risks and benefits and when the assets and liabilities are transferred to the combined municipality.

A merger is the establishment of a new combined municipality in which none of the former entities obtains control over any other and no acquirer can be identified. As no acquirer can be identified, a merger does not result in an municipality having or obtaining control over any of the entities that are involved in the transaction or event, as the combining entities are not controlled entities of each other, either before or after the merger.

Accounting by the entity as the combined entity

Initial recognition and measurement

As of the merger date, the municipality recognises all the assets acquired and liabilities assumed. The assets acquired and liabilities assumed are measured at their carrying amounts.

If, prior to the merger, a combining municipality was not applying the accrual basis of accounting, that combining municipality changes its basis of accounting to the accrual basis of accounting prior to the merger.

The difference between the carrying amounts of the assets acquired and the liabilities assumed is recognised in accumulated surplus or deficit.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

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

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

1.3 Investment property (continued)

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.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	**Useful life**
Property - land	indefinite
Property - buildings	15-30

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

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.

1.4 Total depreciation and amortisation

Total depreciation and amortisation 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 total depreciation and amortisation 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.

Total depreciation and amortisation is initially measured at cost.

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

When significant components of an item of total depreciation and amortisation have different useful lives, they are accounted for as separate items (major components) of total depreciation and amortisation.

Costs include costs incurred initially to acquire or construct an item of total depreciation and amortisation 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 total depreciation and amortisation, 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 total depreciation and amortisation, 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.

Accounting Policies

1.4 Total depreciation and amortisation (continued)

Recognition of costs in the carrying amount of an item of total depreciation and amortisation 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 total depreciation and amortisation. In addition, spare parts and stand by equipment which can only be used in connection with an item of total depreciation and amortisation are accounted for as total depreciation and amortisation.

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

Total depreciation and amortisation is carried at cost less accumulated depreciation and any impairment losses.

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

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

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

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

The revaluation surplus in equity related to a specific item of total depreciation and amortisation is transferred directly to retained earnings when the asset is derecognised.

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

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

Total depreciation and amortisation is carried at cost less accumulated depreciation and any impairment losses.

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

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

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

The useful lives of items of total depreciation and amortisation have been assessed as follows:

Item	Depreciation method	Average useful life
Infrastructure	Straight line	10-100 years
Other property, plant and equipment	Straight line	4-15 years

1.4 Total depreciation and amortisation (continued)

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 total depreciation and amortisation with a cost that is significant in relation to the total cost of the item is depreciated separately.

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

Items of total depreciation and amortisation 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 total depreciation and amortisation is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of total depreciation and amortisation 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.

1.5 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

Accounting Policies

1.6 Intangible assets

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

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

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

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

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

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	**Useful life**
Patents, trademarks and other rights	N/A
Brand names	N/A
Licenses and franchises	N/A
Computer software, other	5 years
Other intangible assets	N/A

1.7 Interest in joint ventures

Controlling entity annual financial statements

An interest in a joint venture is carried at fair value and classified as fair value through surplus or deficit.

Surpluses and deficits resulting from contributions or sale of assets to joint ventures are only recognised to the extent of other venturers' interests in the joint venture.

1.8 Financial instruments

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

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

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

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

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

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

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

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

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

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

A financial asset is:

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

Accounting Policies

1.8 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.8 Financial instruments (continued)

Classification

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

Class	Category
Loan1	Financial asset measured at amortised cost
Loan2	Financial asset measured at amortised cost
Loan3	Financial asset measured at amortised cost
Other receivables1	Financial asset measured at amortised cost
Other receivables2	Financial asset measured at amortised cost
Other financial asset1	Financial asset measured at fair value
Other financial asset2	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
Loan1	Financial liability measured at amortised cost
Loan2	Financial liability measured at amortised cost
Loan3	Financial liability measured at amortised cost
Other receivables1	Financial liability measured at amortised cost
Other receivables2	Financial liability measured at amortised cost
Other financial liability1	Financial liability measured at fair value
Other financial liability2	Financial liability measured at fair value

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

Class	Category
Residual interest1	Measured at fair value
Residual interest2	Measured at cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

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

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

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

Fair value measurement considerations

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

1.8 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

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

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

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.

1.8 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).

1.9 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 - lessor

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

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

Finance leases - lessee

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

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

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.10 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.

1.10 Inventories (continued)

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.

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

1.11 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:

1.11 Impairment of cash-generating assets (continued)

Identification

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

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

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

Value in use

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

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

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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.

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.11 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.

1.12 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

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

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 non-cash-generating assets from cash-generating assets are as follow: [Specify criteria]

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:

Depreciated replacement cost approach

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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.

1.12 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.

1.13 Share capital / contributed capital

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

1.14 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.

1.14 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 some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The 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.

1.15 Provisions and contingencies

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

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

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

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

1.15 Provisions and contingencies (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 39.

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

1.15 Provisions and contingencies (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.

1.16 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.

1.17 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.

Accounting Policies

1.17 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.

1.18 Borrowing costs

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

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

1.19 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.

1.20 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.

1.21 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA 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 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Accounting Policies

1.21 Irregular expenditure (continued)

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

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

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

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

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

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

1.23 Related parties

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

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

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

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

Accounting Policies

1.24 Events after reporting date

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

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

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

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

1.25 New standards and interpretations

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:

- Grap 20: Related parties
- GRAP32: Service Concession Arrangements: Grantor
- GRAP108: Statutory Receivables
- Grap 109: Standard of GRAP on accounting by principals and agents

1.26 Transfers of functions between entities not under common control

The objective of this standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.

A transfer of functions between entities not under common control is a reorganisation and / or reallocation of functions between entities that are not ultimately controlled by the same entity before and after a transfer of functions. In the event of a transfer of functions between entities not under common control, the assets and liabilities should be recognised (by the acquirer) at their acquisition date fair values.The difference between the amount of consideration paid, if any, and the carrying amounts of assets acquired and liabilities assumed should be recognised in accumulated surplus / (deficit). For a transfer of functions between entities not under common control there are some specific recognition and measurement principles and exceptions to the recognition and measurement principles.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

2. Inventories

Water on hand	195 779	197 710
Chemicals	495 205	620 319
	690 984	**818 029**

Inventory is valued at lower of cost or net realisable value.

3. Receivables from non-exchange transactions

Debtor- Interest accrued	271 202	114 872
Prepaid creditors	101 342	-
Sundry Debtors deposits	4 296 834	3 824 016
Agreement / Arrangement Debtors	113 177	397 357
SALGA Games debtors	-	288 577
Uthukela Receipting Debtor	4 384 502	4 384 502
	9 167 057	**9 009 324**

Trade and other receivables- Uthukela Receipting Debtor

Uthukela Water (Pty) Ltd received consumer payments on the behalf of the municipality, after the municipality had taken over the function of the WSP agreement. Uthukela Water (Pty) Ltd then did not transfer the money received as Uthukela Water (Pty) Ltd claims to have deducted these receipts from invoices of bulk purchases. There is no substantiating evidence provided by Uthukela Water (Pty) Ltd to prove the deduction from the bulk purchases invoices.

4. VAT receivable

VAT	12 889 752	8 050 663

VAT is prepared on a cash basis. This receivable is as a result of expenditure incurred.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

5. Consumer debtors

Gross balances		
Water	155 633 796	136 403 358
Sewerage	48 863 865	44 754 830
Consumer debtor - Vat payable	26 383 483	23 299 877
Consumer debtor - Interest	65 495 516	47 786 545
Consumer debtor - payments in advance/ adjustments	(2 078 539)	(2 359 212)
	294 298 121	**249 885 398**

Less: Allowance for impairment		
Water	(119 704 882)	(106 685 734)
Sewerage	(41 428 831)	(37 784 048)
Consumer debtor- Vat payable	(20 549 464)	(17 989 195)
Consumer debtor- Interest	(50 571 708)	(38 863 803)
	(232 254 885)	**(201 322 780)**

Net balance		
Water	35 928 914	29 717 624
Sewerage	7 435 034	6 970 782
Consumer debtor - Vat payable	5 834 019	5 310 682
Consumer debtor - Interest	14 923 808	8 922 742
Consumer debtor - payments in advance/ adjustments	(2 078 539)	(2 359 212)
	62 043 236	**48 562 618**

Water		
Current (0 -30 days)	2 843 504	3 794 187
31 - 60 days	2 559 368	3 111 085
61 - 90 days	2 763 823	3 226 006
91 - 120 days	2 411 455	3 106 086
>121 days	145 055 646	123 165 995
Less: Allowance for impairment	(119 704 882)	(106 685 735)
	35 928 914	**29 717 624**

Sewerage		
Current (0 -30 days)	694 907	1 021 946
31 - 60 days	633 850	874 381
61 - 90 days	656 172	731 196
91 - 120 days	555 262	665 294
>121 days	46 323 674	41 462 013
Less: Allowance for impairment	(41 428 831)	(37 784 048)
	7 435 034	**6 970 782**

Vat		
Current (0 -30 days)	489 348	665 480
31 - 60 days	440 370	562 191
61 - 90 days	393 830	539 396
91 - 120 days	379 390	521 749
>121 days	24 680 545	21 011 061
Less: Allowance for impairment	(20 549 464)	(17 989 195)
	5 834 019	**5 310 682**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

5. Consumer debtors (continued)

Interest		
Current (0 -30 days)	1 767 681	-
31 - 60 days	1 752 935	1 534 737
61 - 90 days	1 728 281	1 511 686
91 - 120 days	1 752 864	1 480 990
>121 days	58 493 755	43 259 131
Less: Allowance for impairment	(50 571 708)	(38 863 802)
	14 923 808	**8 922 742**

Payments in advance/ adjustments		
Current (0 -30 days)	(69 608)	(552 891)
31 - 60 days	(128 864)	(55 746)
61 - 90 days	(81 233)	(228 236)
91 - 120 days	(80 726)	(42 393)
>121 days	(1 718 108)	(1 479 946)
	(2 078 539)	**(2 359 212)**

Figures in Rand	2016	2015

5. Consumer debtors (continued)

Summary of debtors by customer classification

Non-Indigent Consumers		
Current (0 -30 days)	3 476 988	3 010 719
31 - 60 days	3 465 923	3 473 079
61 - 90 days	3 308 080	3 490 718
91 - 120 days	3 271 008	3 366 519
>121 days	202 845 642	171 859 163
Payments in advance/ adjustments	(1 317 495)	(1 072 975)
	215 050 146	184 127 223
Less: Allowance for impairment	(197 860 688)	(175 593 579)
	17 189 458	**8 533 644**

Business/Industrial/ commercial		
Current (0 -30 days)	655 680	723 966
31 - 60 days	486 911	605 887
61 - 90 days	649 267	564 053
91 - 120 days	444 071	477 895
>121 days	19 936 567	19 115 894
Payments in advance/ adjustments	(287 149)	(376 634)
	21 885 347	**21 111 061**

Indigent		
Current (0 -30 days)	589 121	525 755
31 - 60 days	614 778	750 901
61 - 90 days	609 100	691 471
91 - 120 days	581 023	689 629
>121 days	35 352 830	28 452 750
Payments in advance/ adjustments	18 346	22 817
Less: Allowance for impairment	(34 394 196)	(25 729 200)
	3 371 002	**5 404 123**

Provincial government		
Current (0 -30 days)	1 064 171	1 221 173
31 - 60 days	818 911	1 252 528
61 - 90 days	975 659	1 262 041
91 - 120 days	802 869	1 240 075
>121 days	16 418 581	9 470 393
Payments in advance/ adjustments	(493 380)	(932 419)
	19 586 811	**13 513 791**

Total		
Current (0 -30 days)	5 795 440	5 481 613
31 - 60 days	5 386 523	6 082 394
61 - 90 days	5 542 107	6 008 284
91 - 120 days	5 098 970	5 774 119
>121 days	274 553 621	228 898 200
Payments in advance/ adjustments	(2 078 539)	(2 359 212)
	294 298 122	249 885 398
Less: Allowance for impairment	(232 254 886)	(201 322 780)
	62 043 236	**48 562 618**

Less: Allowance for impairment		
Water	(119 704 881)	(106 685 734)

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

5. Consumer debtors (continued)

Sewerage	(41 428 831)	(37 784 048)
Vat	(20 549 464)	(17 989 195)
Interest	(50 571 709)	(38 863 803)
	(232 254 885)	**(201 322 780)**

Neither passed due or impaired	-	-
Past due and impaired	232 254 886	201 322 779
Past due and not impaired	62 043 235	48 562 619
	294 298 121	**249 885 398**

Reconciliation of allowance for impairment

Balance at beginning of the year	(201 322 780)	(147 063 707)
Contributions to allowance	(30 932 105)	(54 259 073)
	(232 254 885)	**(201 322 780)**

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Ageing of the receivables impaired

The ageing of these receivables impaired is as follows:

3 to 6 months	-	-
Over 6 months	232 254 886	201 322 779

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	4 100	4 100
Bank balances	9 594 515	11 856 257
Short-term deposits	51 336 721	46 114 101
	60 935 336	**57 974 458**

The municipality had the following bank accounts

Account number / description	**Bank statement balances**		**Cash book balances**	
	30 June 2016	**30 June 2015**	**30 June 2016**	**30 June 2015**
FNB Current Cheque Account- (Main) 62358106279	9 586 844	11 734 762	9 584 515	11 734 762
FNB Water Account - 62358438044	10 000	101 705	10 000	101 705
FNB 7 Days Notice Account - 74321014438	36 277 794	18 608 632	36 029 896	18 703 195
FNB DBSA Secondary Account -	-	19 814	-	19 814
ABSA Investment Account - 9253667878	1 200 520	60 300	1 199 896	60 563
FNB Investment Account - 62353578564	2 873 908	1 621 005	2 859 376	1 628 000
Rand Merchant Call Investment Account - 021900664	58 138	2 613 394	57 829	2 626 365
Nedbank Investment Account - 7337000049	1 076 260	4 757	1 068 421	4 776
Investec Investment Account - 1100461826502	8 948 329	23 206 011	8 948 329	23 206 011
ABSA Investment Account- 2074161298	-	-	-	-
ABSA Investment Account- 2074360319	-	-	-	-
Standard Bank Account- 308632095	1 153 870	-	1 153 870	-
Investec Investment Account - 1100461826503	19 104	-	19 104	-
Petty Cash	4 100	4 100	4 100	4 100
Total	**61 208 867**	**57 974 480**	**60 935 336**	**58 089 291**

7. Investment property

	2016			2015		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	1 160 845	(266 059)	894 786	1 160 845	(216 225)	944 620

Reconciliation of investment property - 2016

	Opening balance	**Depreciation**	**Total**
Investment property	944 620	(49 834)	894 786

Reconciliation of investment property - 2015

	Opening balance	**Depreciation**	**Total**
Investment property	994 452	(49 832)	944 620

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

Details of valuation

The fair value of these properties as valued by Endumeni municipality council on the July 2013 amounts as show above.

7. Investment property (continued)

The investment property values are based on the valuation roll of Endumeni Municipality. Valuations were performed by an independent valuer. Kharl Theodor Hellberg, Professional valuer, Registration number 696, of Umhlanga Geomatics Incorporated. The valuer are not connected to the municipality and have not recent experience in the location and category of investment property being valued. The valuation was based on the open market value.

The direct operating expenses (including repairs & maintenance) arising from investment property is **NIL**.

8. Total depreciation and amortisation

	2016			2015		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Buildings	28 880 300	(7 417 452)	21 462 848	23 529 342	(6 251 300)	17 278 042
Plant and machinery	23 014 613	(12 416 691)	10 597 922	22 791 668	(10 414 920)	12 376 748
Motor vehicles	11 839 137	(10 424 147)	1 414 990	11 839 137	(9 475 636)	2 363 501
Office equipment	9 125 574	(6 924 003)	2 201 571	8 602 184	(6 373 011)	2 229 173
Total	**72 859 624**	**(37 182 293)**	**35 677 331**	**66 762 331**	**(32 514 867)**	**34 247 464**

Reconciliation of total depreciation and amortisation - 2016

	Opening balance	**Additions**	**Disposals**	**Depreciation**	**Total**
Buildings	17 278 042	5 550 238	(199 280)	(1 166 152)	21 462 848
Plant and machinery	12 376 748	515 160	(292 215)	(2 001 771)	10 597 922
Motor vehicles	2 363 501	-	-	(948 511)	1 414 990
Office equipment	2 229 173	736 723	(213 333)	(550 992)	2 201 571
	34 247 464	**6 802 121**	**(704 828)**	**(4 667 426)**	**35 677 331**

Reconciliation of total depreciation and amortisation - 2015

	Opening balance	**Additions**	**Disposals**	**Depreciation**	**Total**
Buildings	17 272 880	225 174	-	(220 012)	17 278 042
Plant and machinery	10 272 010	3 967 112	-	(1 862 374)	12 376 748
Motor vehicles	3 370 673	22 667	-	(1 029 839)	2 363 501
Office equipment	1 217 518	1 383 346	(101 518)	(270 173)	2 229 173
	32 133 081	**5 598 299**	**(101 518)**	**(3 382 398)**	**34 247 464**

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.

Pledged as security

No PPE assets are pledged as security.

Compensation received for losses on property, plant and equipment – included in operating profit.

	2016	2015
Office equipment	34 644	-

8. Total depreciation and amortisation (continued)

Reconciliation of Work-in-Progress 2016

		Total
Opening balance	510 309 292	510 309 292
Additions: Infrastructure	196 115 233	196 115 233
Additions: Building	18 462 858	18 462 858
Transferred to completed items	(59 960 108)	(59 960 108)
	664 927 275	**664 927 275**

Reconciliation of Work-in-Progress 2015

		Total
Opening balance	380 595 543	380 595 543
Additions: Infrastructure	129 713 749	129 713 749
	510 309 292	**510 309 292**

9. Infrastructure

	2016			2015		
	Cost / Valuation	**Accumulated Deprciation**	**Carrying value**	**Cost / Valuation**	**Accumulated Depreciation**	**Carrying value**
Infrastructure	1 788 753 564	(157 653 875)	1 631 099 689	1 552 565 295	(98 666 010)	1 453 899 285

Reconciliation of infrastructure - 2016

	Opening balance	Additions	Work in progress	Disposals	Transfers from WIP	Depreciation	Impairment loss	Total
Infrastructure	1 453 899 285	82 798 461	214 578 091	(777 325)	(59 960 108)	(58 995 865)	(442 850)	1 631 099 689

Reconciliation of infrastructure - 2015

	Opening balance	Additions	Work in progress	Depreciation	Total
Infrastructure	1 301 923 908	73 583 969	129 713 749	(51 322 341)	1 453 899 285

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.

No compensations were received for losses on infrastructure.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

10. Intangible assets

	2016			2015		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	3 603 997	(3 461 414)	142 583	3 591 805	(3 424 014)	167 791

Reconciliation of intangible assets - 2016

	Opening balance	**Additions**	**Disposals**	**Amortisation**	**Total**
Computer software, other	167 791	14 842	(2 650)	(37 400)	142 583

Reconciliation of intangible assets - 2015

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software, other	406 133	67 746	(306 088)	167 791

The carrying value of intangile assets disclosed relate to computer software of R142 583.

11. Interest in joint ventures

Name of company	**Listed / Unlisted**	**Carrying amount 2016**	**Carrying amount 2015**
uThukela Water (Pty) Ltd- shortfall funding	Unlisted	339 334 826	377 542 226

The Interest in Uthukela Water (Pty) Ltd was reduced due to the transfer of reticulation function.

Reconciliation of Interest in Joint Venture		
Opening balance	377 542 227	352 532 809
Share of Deficit / Surplus	(38 207 401)	25 009 417
Share of deficit of joint venture at 30/06/2016	**339 334 826**	**377 542 226**

12. Short term portion: of long term liability

Uthukela Water pty (Ltd)	9 041 025	16 086 804
DBSA -(MIG) loan	-	75 782 078
DBSA / Endumeni loan	756 054	-
	9 797 079	**91 868 882**

13. Long term liabilities

Long term liability DBSA / Endumeni loan	2 082 384	4 345 135
uThukela Water Creditor-Long T	64 191 401	64 191 401
	66 273 785	**68 536 536**

Uthukela Water (Pty) Ltd was formed by 3 municipalities with each municipality having a share-holding, when Uthukela Water (Pty) Ltd was dissolved the municipalities had then gotten functions no longer honoured by Uthukela Water (Pty) Ltd.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

13. Long term liabilities (continued)

Umzinyathi had financial constraints which lead the municipality into not being able to honour the Water Service Provider agreement inovices with Uthukela Water (Pty) Ltd.

Development Bank of South Africa Loans	Opening balance	Interest capitalised	Capital repayment	Carrying value @ 30 June 2016
DBSA/uThukela Loan	17 470 076	958 964	(9 388 014)	9 041 026
DBSA/Endumeni Loan	4 345 134	761 464	(2 268 162)	2 838 436
DBSA/MIG Loan	75 782 079	2 054 476	(77 836 555)	-
Subtotal	97 597 289	3 774 904	(89 492 731)	11 879 462
	97 597 289	**3 774 904**	**(89 492 731)**	**11 879 462**

The approved MIG funding allocation received from National Treasury has been pledged against the loan.

14. Payables from exchange transactions

	2016	2015
Trade payables	1 769 591	2 636 468
Accrued leave pay	10 106 546	8 139 268
Accrued expense	39 633 278	29 865 994
Retention held suspense	12 578 429	9 263 534
	64 087 844	**49 905 264**

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

15. Consumer deposits

	2016	2015
Water	491 712	534 501

The Consumer deposits relates to monies paid for connections before any services could be rendered.

These amounts relates to prior period deposits.

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts	2016	2015
Municipal Infrastructure Grant	12 967 733	-
Asisukume Maize Mill	-	61 382
Expended Public Works Programme Grant	21 554	-
COGTA Rural Development	289 088	289 799
Mtshongweni Veg Project	-	70 389
Disaster Management Grant	-	3 296 033
Environmental Management Framework Grant	426 512	1 000 000
Water Services Operating Subsidy Grant	3 650 000	-
Development Planning Shared Services Grant	6 972	-
	17 361 859	**4 717 603**

See note 23 for reconciliation of grants from National/Provincial Government.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

17. Employee benefit obligations

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

Carrying value		
Post-Employment medical benefits	(20 615 000)	(14 071 000)
Long service awards	(4 883 000)	(4 119 000)
	(25 498 000)	**(18 190 000)**

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	(14 071 000)	(15 400 176)
Current service cost and interest cost	(2 192 000)	877 176
Benefits paid	225 000	297 000
Actuarial Loss/ (Gain)	(4 577 000)	155 000
	(20 615 000)	**(14 071 000)**

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	(4 119 000)	(3 502 000)
Current service cost and interest cost	(920 000)	(859 000)
Benefits paid	307 000	52 000
Actuarial Loss / (Gain)	(151 000)	190 000
	(4 883 000)	**(4 119 000)**

The Benefits Paid figure above has been estimated based on the data provided to us by the Municipality. We recommend that this be replaced by the actual benefits paid figure for accounting disclosure purposes. If the actual amount of benefits paid is used instead of this estimate, then the Actuarial Loss/(Gain) figure must change to exactly offset the impact, such that the Closing Accrued Liability remains unchanged. For example if the actual amount of Benefits Paid was R50,000 less than the estimate provided, then the Actuarial Loss/(Gain) would have to reduce by R50,000 to leave the Closing Accrued Liability exactly as is.

17. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.60 %	9.40 %
Medical cost trend rates	9.10 %	8.90 %
Net effective discount rate	0.46 %	0.46 %

The basis on which the discount rate has been determined is as follow:

Discount Rate- GRAP 25 requires the discount rate used in the valuation be determined by reference to market yields on government bonds as at the balance sheet date. In line with GRAP 25 and current market practise, government bond yields are therefore used when setting our best estimate discount rate assumption.The currency and term of the government bonds shall be consistent with the currency and estimated term of the post-employment benefit obigations. The estimated discount rate was set to the yield on the BESA zero-coupon yield curve with a term of 17 years, the expected duration of the liability based on the current membership data, as at 30 June 2016.

Medical Aid Inflation
The Medical Aid Contribution Inflation rate was set with reference to the past relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Medical Aid Contribution Inflation for each relevant time period. South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would out-strip general inflation by 2% per annum over the foreseeable future.

Average Retirement Age
The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements..

Normal Retirement Age
The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality Rates
Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDSt

Spouses and Dependants
We assumed that the marital status of members who are currently married will remain the same up to retirement. It was also assumed that 90% of all single employees would be married at retirement with no dependent children. Where necessary it was assumed that female spouses would be five years younger than their male spouses at retirement and vice versa.t

Financial Variables

Discount Rate	8.50 %	8.50 %
Normal Salary Increase Rate	9.10 %	8.90 %
Net Effective Discount Rate	0.55 %	0.54 %

Normal Salary Inflation Rate
We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2016 of 6%. The next salary increase was assumed to take place on 01 July 2017.

Withdrawal assumption

The table below shows the annual withdrawal rate for the current and previous valuation, differentiated by age

17. Employee benefit obligations (continued)

Age	Withdrawal Rate Males %	Withdrawal Rate Females %	Withdrawal Rate Males %	Withdrawal Rate Females %
20-24	16	24	13	13
25-29	12	18	13	13
30-34	10	15	11	11
35-39	8	8	8	8
40-44	6	6	6	6
45-49	4	4	4	4
50-54	2	2	3	3
55-59	1	1	0	0

Long Service Awards Liabilities

Long service benefits are awarded in the form of a number of leave days awarded once an employee has completed a certain number of years in service. We have converted the awarded leave days to a percentage of annual salary by assuming there are 250 working days per year. The expected value of each employee's long service award is projected to the next interval by allowing for future salary growth. The table below contains a summary of the benefit policy:

Completed Years of Service	Total Long Service Benefit Award (% of Annual Salary)	Formula used to calculate Total Long Service Benefit Award
10	4%	(10/250)*Annual Salary
15	8%	(20/250)*Annual Salary
20, 25, 30, 35, 40, and 45	12%	(30/250)*Annual Salary

Membership Data

Membership Data- The key features of the membership data used in the current and prior valuation are summarised below;

Current Employees	Males	Females	Males	Females
Number of active employees	88	80	201	91
Subsidy weighted average age	42.7	39.2	42	38
Subsidy weighted average past service	8.5	8.5	9	6
Average annual salary in rands	1200	1200	134451	200478

18. Service charges

	2016	2015
Sale of water	34 308 798	43 618 073
Sewerage and sanitation charges	9 308 598	11 622 301
Water re-connection fee	54 377	43 454
Sewerage / Water new connection fee	526 992	491 151
	44 198 765	**55 774 979**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

19. Rental of facilities and equipment

Rental of Premises:;	406 159	265 488
Rental Of Staff Houses;	67 200	67 200
	473 359	**332 688**

The amount received on the investment property for rental of premises owned by the municipality totals to R473 359.

20. Interest earned- outstanding debtors

Interest earned- outstanding debtors	19 920 325	16 547 942

21. Other income

Other income	272 176	520 716
Discount received on loan	-	2 004 020
Profit on sale of asset	3 788	-
	275 964	**2 524 736**

22. Investment revenue

Interest revenue		
Bank	7 975 966	7 042 660
SARS interest	31 851	117 691
	8 007 817	**7 160 351**

Figures in Rand	2016	2015

23. Government grants and subsidies

Operating grants		
Equitable share	240 374 000	213 364 000
LGSETA Training Grant	12 806	159 939
Other Government Grants	3 067 898	280 679 662
	243 454 704	**494 203 601**
Capital grants		
Government grants (capital)	465 126 929	-
	708 581 633	**494 203 601**

Equitable Share

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

All registered indigents receive a monthly subsidy of 6 kilo litres @ R 6.33 excl of Vat, which is funded from the grant.

MIG

Current-year receipts	203 835 000	179 014 000
Conditions met - transferred to revenue	(190 867 267)	(179 014 000)
	12 967 733	**-**

Conditions

Municipalities must prioritise MIG for eligible beneficiaries and infrastructure that includes: basic residential infrastructure for the poor for water, sanitation, roads, waste management, streetlighting, community facilities as well as associated municipal bulk and connector infrastructure new or upgrading of municipal bulk, connector and reticulation infrastructure to support existing areas and the formalisation of settlements renewal of eligible infrastructure servicing the poor subject to the confirmation by the relevant sector department of the state of infrastructure and a commitment from the municipality of how on-going operations and maintenance of the renewed infrastructure will be funded and performed maintenance of roads infrastructure mainly servicing the poor.

Conditions still to be met - remain liabilities (see note16).

Rural Transport Services Infrastructure Grant

Current-year receipts	2 124 000	2 128 000
Conditions met - transferred to revenue	(2 124 000)	(2 128 000)
	-	**-**

Conditions

District municipalities must provide local municipalities with validated information from the condition data collected to enable municipalities to identify and prioritise road maintenance requirements within their own budgets, to improve the condition and extend the lifespan of road infrastructure. District municipalities must participate in grant management structures, including attending quarterly rural RAMS meetings.

Asisukume Maize Mill

Balance unspent at beginning of year	61 382	61 382
Conditions met - transferred to revenue	(61 382)	-
	-	**61 382**

Conditions

23. Government grants and subsidies (continued)

Asiskume maize mill is assigned to assist the municipality in the development of the municipal economic agricultural sector.

Expanded Public Works Programme Grant

	2016	2015
Balance unspent at beginning of year	-	528
Current-year receipts	3 434 000	1 790 000
Conditions met - transferred to revenue	(3 412 446)	(1 790 528)
	21 554	**-**

Conditions

EPWP projects must comply with the project selection criteria determined in the EPWP grant manual, the EPWP guidelines set by Department of Public Works (DPW) and the Ministerial Determination updated annually on 1 November each year Eligible municipalities must sign a funding agreement with the DPW before the first grant disbursement, with their final EPWP project list attached.Reports must be loaded on the EPWP reporting system within 15 days after the end of every quarter in order for progress to be assessed. Municipalities must maintain beneficiary and payroll records as specified in the audit requirements in the EPWP grant manual.The EPWP grant cannot be used to fund the costs of permanent municipal personnel; however, a maximum of five per cent of the grant can be used to fund contract based capacity required to manage data capturing and on-site management costs related to the use of labour intensive methods. The EPWP grant can only be utilised for EPWP purposes, for the projects approved in each municipality's EPWP project list. To receive the first planned grant disbursement, eligible municipalities must submit a signed Incentive. Subsequent grant disbursements are conditional upon eligible municipalities reporting quarterly on EPWP performance within the required timeframes. Municipalities must implement their approved EPWP project list and meet agreed job creation targets. EPWP branding must be incorporated on any existing signage as per corporate identity manual.

Conditions still to be met - remain liabilities (see note 16)

COGTA Rural Development Grant

	2016	2015
Balance unspent at beginning of year	289 799	289 799
Conditions met - transferred to revenue	(711)	-
	289 088	**289 799**

Conditions

The Development grant is assigned to assist the municipality in the development of the municipal economic sector.

Conditions still to be met - remain liabilities (see note 16)

Mtshongweni Veg Project

	2016	2015
Balance unspent at beginning of year	70 389	1 137 063
Current-year receipts	-	500 000
Conditions met - transferred to revenue	(70 389)	(1 566 674)
	-	**70 389**

Conditions

Mtshongweni vegetable project is assigned to assist the municipality in the development of the municipal economic agricultural sector.

Municipal Water Infrastructure Grant

	2016	2015
Balance unspent at beginning of year	-	1 438 948
Current-year receipts	78 250 000	19 775 000
Conditions met - transferred to revenue	(78 250 000)	(21 213 948)

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

23. Government grants and subsidies (continued)

	-	**-**

Conditions

Municipalities must submit business plans signed off by the Accounting Officer in line with their Water Services Development Plans (WSDP). The Department of Water and Sanitation (DWS) must approve the business plans before projects can be implemented WSAs may only spend funds in line with approved business plans WSA must submit monthly financial and quarterly non-financial reports to DWS. All projects funded must be aligned to, and not duplicate, any existing or planned projects funded from other conditional grants or municipal own funds. Funds must be reflected on the capital budget of the municipality Grant funds may not be spent on operations and routine maintenance. Municipalities must demonstrate in the business plan how they plan to fund and manage the infrastructure over the long term.

Rural Househols Infrastructure Grant

Balance unspent at beginning of year	-	4 000 000
Current-year receipts	4 300 000	4 000 000
Conditions met - transferred to revenue	(4 300 000)	(8 000 000)
	-	**-**

Conditions

Municipalities must submit business plans approved by the Accounting Officer (AO), in accordance with their Water Services Development Plans (WSDPs). Fund training for beneficiaries on health and hygiene practices and how to use the facilities and perform basic maintenance. Target the provision of on-site sanitation facilities to rural households not intended for connector services. The design of sanitation facilities has to be consistent with South African National Standards norms and standards. The implementation of the programme must include training of communities on their responsibilities with regard to the outcomes of the programme and health and hygiene awareness training.

Disaster Management Grant

Balance unspent at beginning of year	3 296 033	-
Current-year receipts	5 000 000	5 000 000
Conditions met - transferred to revenue	(8 296 033)	(1 703 967)
	-	**3 296 033**

Conditions

Municipalities must undertake to utilise the grant exclusively for purposes of the project in accordance with the business plan, provided that the Department may conduct an audit at any stage during the term of the agreement or after termination thereof.

Environmental Management Framework Grant

Balance unspent at beginning of year	1 000 000	1 000 000
Conditions met - transferred to revenue	(573 488)	-
	426 512	**1 000 000**

Conditions

The environmental management framework grant is assigned to assist the municipality in the development of the municipal environment management framework plan.

Conditions still to be met - remain liabilities (see note 16).

Water Services Operational Grant

Current-year receipts	3 650 000	4 000 000
Conditions met - transferred to revenue	-	(4 000 000)

Figures in Rand	2016	2015

23. Government grants and subsidies (continued)

	3 650 000	**-**

Conditions

Funds transferred to WSAs must be utilised in line with the approved business plan. The grant may be used to fund refurbishment of water services schemes transferred to WSAs. All receiving municipalities and WSPs will be required to adhere to the Transfer Agreements (TA) with, DWS and all subsequent addendums. Receiving municipalities must demonstrate that appropriate operations and maintenance measures are in place to ensure the sustainability of transferred water services schemes. Progress reports on the grant must be submitted on a monthly, quarterly and annual basis.

Conditions still to be met - remain liabilities (see note 16).

Regional Bulk Infrastructure Grant

Current-year receipts	86 800 866	43 516 801
Conditions met - transferred to revenue	(86 800 866)	(43 516 801)
	-	-

Conditions

The Regional Bulk Infrastructure Grant (RBIG) is intended to fund the social component of regional bulk water and waste water projects approved by the Department of Water and Sanitation (DWS), unless arguments for exemption based on affordability are recommended by DWS and approved by National Treasury. This grant can be used to build enabling infrastructure required to connect or protect water resources over significant distances with bulk and reticulation systems. The need for a bulk infrastructure solution must be confirmed and accepted by DWS through the regional bulk master planning process. A financing plan with associated co-funding agreements must be in place prior to implementation of RBIG funded projects. All sources of funding for the full cost of the project must be outlined in the IRS and the funding agreement RBIG payments will be made (IA) based on invoices for work done. All projects must be aligned with and referenced to Integrated Development Plans (IDPs) and Water Services Development Plans (WSDPs) as well as a detailed plan which shows alignment of RBIG projects with those funded through the Municipal Infrastructure Grant, Municipal Water Infrastructure Grant and the Water Services Operating Subsidy Grant .A transfer plan must be developed and agreed to prior to the commencement of any new projects.

Financial Management Grant

Current-year receipts	1 250 000	1 250 000
Conditions met - transferred to revenue	(1 250 000)	(1 250 000)
	-	-

Conditions

FMG funds can be used towards the following: establishment of a Budget and Treasury Office (BTO) with positions filled by appropriately qualified personnel establishment of SCM capacity, an Internal Audit unit and Audit Committees, at least five interns appointed over a multi-year period on-going review, revision and submission of FMG support plans to National Treasury that address weaknesses in financial management acquisition, upgrade and maintenance of financial management systems to produce multi-year budgets, in-year reports, Service Delivery and Budget Implementation Plans, Annual Financial Statements, annual reports and automated financial management practices including the municipal Standard Chart of Accounts review and adoption of a delegation system support the training of municipal officials in financial management towards attaining the minimum competencies, as regulated in Government Gazette 29967 of June 2007 preparation and timely submission of annual financial statements for audits support implementation of corrective actions to address audit findings in municipalities that received adverse and disclaimer opinions technical support in financial management to municipalities must include the transfer of skills to municipal officials, the preparation of a financial recovery plan and the implementation thereof, where appropriate, implementation of financial management reforms and addressing shortcomings identified in the Financial Management Capability Maturity Model (FMCMM) Assessment Report for that municipality, ensuring timely submission of the FMG support plan consistent with the conditions of the grant, Regular, timely submission of reports with completed information, Expenditure must be maintained at appropriate levels.

Municipal Systems Improvement Grant

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

23. Government grants and subsidies (continued)

Current-year receipts	940 000	934 000
Conditions met - transferred to revenue	(940 000)	(934 000)
	-	-

Conditions

Municipalities must submit to the Department of Cooperative Governance (DCoG) signed activity plans in the prescribed format with detailed budgets and timeframes for the implementation of prioritised measurable outputs, in line with the outputs of this grant. Only projects from the activity plans approved by DCoG will be funded from this grant.

Shared Services Development Grant

Current-year receipts	250 000	250 000
Conditions met - transferred to revenue	(243 028)	(250 000)
	6 972	-

Conditions

Optimise planning function and resources in the district to increase efficieny and to reduce cost of service. Create an environment of learning where jounior and inexperienced staff can be mentored by more senior officials. Promote continuity where the loss of one staff member should not disprut services. Promote integration and alignment (IDP-Spatialsetc).

Conditions still to be met - remain liabilities (see note 16).

Drought Relief DWAF

Current-year receipts	69 446 649	8 961 398
Conditions met - transferred to revenue	(69 446 649)	(8 961 398)
	-	-

Conditions

Drilling of production boreholes in Greytown area and to fund water tankers in areas affected by the drought within the district.

Opathe/Umgungundlovu

Current-year receipts	19 611 105	-
Conditions met - transferred to revenue	(19 611 105)	-
	-	-

24. Revenue

Service charges	44 198 765	55 774 979
Rental of facilities and equipment	473 359	332 688
Interest earned- outstanding debtors	19 920 325	16 547 942
Other income	275 964	2 524 736
Interest received - investment	8 007 817	7 160 351
Government grants & subsidies	708 581 633	494 203 601
	781 457 863	**576 544 297**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

24. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	44 198 765	55 774 979
Rental of facilities and equipment	473 359	332 688
Interest earned- outstanding debtors	19 920 325	16 547 942
Other income	275 964	2 524 736
Interest received - investment	8 007 817	7 160 351
	72 876 230	**82 340 696**

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

Transfer revenue		
Government grants & subsidies	708 581 633	494 203 601

Figures in Rand	2016	2015

25. Employee related costs

Basic	67 162 560	61 015 503
Bonus	4 563 392	3 956 582
Medical aid - company contributions	3 251 880	2 758 215
UIF	587 440	520 591
SDL	913 752	797 972
Leave provision	3 101 034	3 450 170
Shift allowance	1 798 497	1 617 982
Defined contribution plans	8 736 864	7 047 679
Travel, motor car, accommodation, subsistence and other allowances	4 198 134	3 357 139
Overtime payments	8 971 481	8 137 038
Housing benefits and allowances	1 705 676	886 427
	104 990 710	**93 545 298**

Remuneration of Municipal Manager

Annual Remuneration	772 704	487 258
Performance Bonuses	-	-
Travel Allowance	270 024	106 829
Acting allowance	64 924	220 665
Contributions to UIF, Medical and Pension Funds	62 250	261 125
	1 169 902	**1 075 877**

The Municipal Manager position was filled in September 2015.

Remuneration of Chief Finance Officer

Annual Remuneration	217 184	161 506
Performance Bonuses	-	-
Travel Allowance	99 056	33 598
Acting allowance	31 848	-
Contributions to UIF, Medical and Pension Funds	51 861	34 623
	399 949	**229 727**

The Chief finance officer position was vacant in 2015/2016 financial year but there was an acting official and a deployed official by the Provincial COGTA department.

Remuneration of Community Services Director

Annual Remuneration	540 801	523 356
Performance Bonuses	73 270	-
Travel Allowance	178 513	129 032
Acting allowance	-	-
Contributions to UIF, Medical and Pension Funds	282 976	255 264
	1 075 560	**907 652**

Remuneration of Technical Director

Annual Remuneration	734 852	711 147
Performance Bonuses	-	-
Travel Allowance	239 069	271 808
Acting allowance	-	-
Contributions to UIF, Medical and Pension Funds	316 521	288 309
	1 290 442	**1 271 264**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

25. Employee related costs (continued)

Remuneration of Corporate Director

Annual Remuneration	630 934	610 581
Performance Bonuses	64 111	-
Travel Allowance	120 664	122 408
Acting Allowance	-	-
Contributions to UIF, Medical and Pension Funds	234 224	205 358
	1 049 933	**938 347**

Remuneration of Planning and Development Director

Annual Remuneration	609 933	416 831
Performance Bonuses	29 168	-
Travel Allowance	67 378	50 301
Acting Allowance	-	-
Contributions to UIF, Medical and Pension Funds	115 253	22 328
	821 732	**489 460**

The Planning and Development Director position was filled in September 2015.

26. Remuneration of councillors

Mayor	222 629	641 300
Deputy Mayor	607 764	568 670
Mayoral Committee Members	286 416	407 659
Speaker	302 063	293 679
Councillors	2 222 886	1 726 189
Councillors’ pension contribution	146 944	201 738
Local authority/ Travel Fees	105 662	112 634
Medical aid contributions	38 806	32 096
Mobile data	15 300	20 100
Skill levy	34 080	33 577
	3 982 550	**4 037 642**

In-kind benefits

The Mayor and Speaker are part-time & Deputy Mayor is full-time. Each is provided with an office and secretarial support at the cost to the Council.

The Mayor has use of a Council owned vehicle for official duties.

The Mayor has two full-time bodyguards and a driver. The Deputy Mayor has two full-time bodyguards and a driver.

The Speaker has two full-time bodyguards and the Deputy Accounting Officer has two full-time bodyguards.

The Speaker and the Deputy Mayor has use of a Council hired vehicle for official duties.

The Mayor 's position was vacant from 8 September 2015 when the mayor resigned and was filled in May 2016.

Figures in Rand	2016	2015

27. Depreciation and amortisation

Total depreciation and amortisation	63 750 525	56 317 390

Depreciation and amortisation by asset class		
Buildings	1 166 152	220 011
Plant and machinery	2 001 771	1 862 374
Office equipment	550 992	270 173
Motor Vehicles	948 511	1 029 840
Intangible	37 400	306 088
Investment property	49 834	45 548
Infrastructure	58 995 865	52 583 356
	63 750 525	**56 317 390**

28. Finance costs

Interest paid	3 774 904	7 812 811

Interest rate paid on DBSA - Endumeni loan is 17%.

Interest rate paid on DBSA- Uthukela loan is 7%.

Interest rate paid on DBSA- MIG loan is 7%.

29. Provision for debt impairment

Contributions to debt impairment provision	30 932 106	54 259 072

30. Repairs & Maintenance

Office Furniture & Equipment	79 237	11 800
Buildings & Offices;	166 511	145 184
Purification;	-	68 874
Vehicle Maintenance;	2 947 351	3 452 490
Buildings & Grounds;	12 011	15 051
IT Support;	624 290	530 730
Sanitation;	5 076 380	4 790 121
Water Operation-repairs&mainte	1 083 468	895 830
	9 989 248	**9 910 080**

31. Bulk purchases

Water	11 366 985	14 627 998

4 471 935 kilo litres of water was purchased @ R 2.54 per litre.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

32. Grants and subsidies paid

Municipal Infrastructure Grant	29 700 963	16 683 571
Massifikation of Bulk Water	-	2 084 951
KZN ACIP WWTW	-	1 248 619
Financial Management Grant	1 187 626	1 198 656
Municipal Systems Improvement Grant	883 728	865 433
Shared Services Development Grant	237 130	229 271
Extended Public Works Programme Grant	3 328 959	1 655 851
Water Services Operational Grant	-	3 508 791
Municipal Water Infrastructure Grant	33 424 304	18 608 656
Rural Transport Services Infrastructure Grant	1 988 510	2 023 570
Dundee July Grant	-	495 102
Disaster Management Grant	-	1 703 967
Asisukume Maize Mill	61 382	577 090
Mtshongweni Veg Project	70 389	1 292 862
LGSETA Training Grant	-	120 072
Drought Relief Grant	-	7 602 563
Drought Relief DWAF Grant	43 286 669	8 478 477
Rural Households Infrastructure Grant	3 771 930	7 082 352
Opathe/Umgugundlovu Project	17 202 724	-
Environment Management Framework Grant	503 060	-
COGTA Rural Development	711	-
	135 648 085	**75 459 854**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

33. General expenses

Advertising	270 153	194 242
Agency development	358 000	38 294
Asset verification expense	1 126 203	1 329 934
Auditors remuneration	3 444 120	4 016 221
Bank charges	48 262	163 345
Bursaries	568 156	510 000
Chemicals	20 883	14 182
Children and Youth	190 146	8 474
Cleaning	143 469	90 624
Computer expenses	157 765	268 061
Conferences and seminars	160 166	167 618
Consulting and professional fees	144 595	6 657 588
Corporate materials	328 512	-
Disaster relief	1 215 527	826 882
District cultural events	609 503	477 711
Drought relief	25 642 933	29 163 881
Eldery & widows	190 248	225 501
Entertainment	33 456	45 681
Fines and penalties	55 791	65 580
Fire services operating cost	17 150	788 507
Fuel and oil	3 668 387	4 681 184
HIV/ AIDS programmes	281 524	1 003 606
Hiring of vehicles	2 271 862	-
Human resource development	801 044	641 156
IDP review costs	816 014	839 797
IDP sector plans	661 578	184 658
IT expenses- GIS tools	787 368	438 333
Legal costs	1 714 581	1 853 346
Insurance costs	1 055 328	1 317 689
Inventory loose tools	7 059	3 089
LED project costs	2 267 304	2 770 860
License fees	313 882	463 575
Marketing & Promotions	596 408	826 447
Mayoral imbizo	453 906	1 717 928
Mayoral sports tournament	60 725	250 557
Other expenses	2 121 184	3 484
Overgrown stands	14 050	44 540
Pauper Burials	149 559	198 550
People with disablities	263 311	386 328
Postage and courier	613 996	581 208
Poverty alleviation programmes	305 800	283 783
Printing and stationery	224 692	149 051
Project launch costs	254 206	174 611
Promotions and sponsorships- LED	513 890	316 734
Recruitment of staff	126 735	265 644
Rural horse riding events	340 823	1 092 052
SALGA Sports & culture programmes	1 588 186	4 183 873
Sampling of water, milk & food	79 813	53 414
Security (Guarding of municipal property)	5 517 054	2 662 594
Subscriptions and membership fees	1 273 543	1 129 704
Telephone and fax	1 438 020	1 675 591
Title deed search fees	1 074 554	944 540
Travel - local costs	3 399 597	3 713 587
Uniforms	108 613	-
Utilities - Rates	599 744	548 890
VAT adjustment	682 555	(1 519 518)
Water & electricity costs	31 798 641	18 445 583
Water services operational costs	54 728 371	47 951 696
Women & gender programmes	342 657	430 796

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

33. General expenses (continued)

	158 041 602	**145 761 286**

34. Prior period errors

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

Passing of credit notes- prior year Uthukela Water (Pty) Ltd	-	2 815 013
DBSA loan interest / Interest accrued prior adjustment	-	43
Passing of credit notes- prior year	-	1 000
Prior year adjustment on debtors	-	(221 392)
Endumeni loan- prior year	-	(4 345 135)
Prior year adjustment of Uthukela Water (Pty) Ltd creditor	-	1 771 329
Prior year adjustment DBSA loan repayment	-	1 621 144
Prior year adjustment of Uthukela Water (Pty) Ltd creditor	-	1 371 406
Prior year adjustments of infrastructure assets	-	67 810 889
Prior year adjustments of VAT output on water sales	-	(817 947)
Prior year adjustments on fringe benefits	-	(263 049)
	-	-
	-	69 743 214

35. Cash generated from operations

Surplus	212 744 732	136 914 254
Adjustments for:		
Depreciation and amortisation	63 750 525	56 317 390
Income from equity accounted investments	38 207 401	(25 009 417)
Finance costs	3 774 904	7 812 811
Impairment deficit	442 850	-
Debt impairment	30 932 106	54 259 072
Movements in Long term liability	(2 262 751)	(37 752 106)
Movements in retirement benefit assets and liabilities	7 308 000	(712 000)
Other non-cash items	(855 228)	40 979 535
Other non-cash items	4 100	4 100
Changes in working capital:		
Inventories	127 045	(818 029)
Consumer debtors	(44 412 724)	(48 644 041)
Other receivables from non-exchange transactions	(157 733)	1 758 241
Payables from exchange transactions	14 182 585	2 592 343
VAT	(4 839 089)	13 743 412
Unspent conditional grants and receipts	12 644 256	(5 079 125)
Consumer deposits	(42 789)	(13 648)
	331 548 190	**196 352 792**

36. Auditors' remuneration

Internal audit fees	1 003 480	1 364 960
External audit fees - Auditor General (AG)	2 324 752	2 508 061
Audit committee costs	115 888	143 200
	3 444 120	**4 016 221**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

37. MIG Expenditure

uMvoti sanitation	1 409 994	2 674 686
Eshane water supply	-	568 066
Ntini water supply	2 744 711	434 320
Makhabeleni water suppy	7 006 059	6 212 528
Kwakopi mhlangana sanitation	-	2 217 496
Mbono water supply	6 565 490	8 327 259
Douglas water supply	1 635 981	2 475 465
Mbulwane - Hlimbithwa sanitation	2 420 348	309 708
Muden Sanitation	2 811 548	5 090 972
Ngubukazi Water Supply	213 280	1 017 631
Nquthu Sanitation	4 479 317	7 690 676
Ophathe water supply	14 831 965	21 322 126
Othame sanitation	-	16 888 640
Sithembile water supply	9 078 586	2 726 596
Umzinyathi water rudimentary supply	-	89 500 203
Umsinga water supply	21 605 122	13 433 504
Muden water supply	14 352 486	11 727 055
Nquthu north eastern services	1 145 876	3 140 204
Mthembu water supply	683 655	-
Pomery Douglas sanitation	24 688	-
UDM Disaster center	12 751 625	-
Water Tanker Reduction	87 106 533	-
	190 867 264	**195 757 135**

38. Commitments

Total commitments

Approved and contracted for	492 495 250	535 086 733
Approved but not contracted for	106 871 656	95 955 708
	599 366 906	**631 042 441**

This committed expenditure relates to capital commitments and will be financed by government grants.

Commitments are committed for more than a period of twelve months.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	959 916	744 588
- in second to fifth year inclusive	88 508	340 004
	1 048 424	**1 084 592**

The municipality is leasing 18 copiers from Technology Acceptance and monthly rental expense has been accounted for in the statement of financial performance. The average lease term is 5 years and the average escalation rate is 10%. The escalation is fixed for the duration of the contract. No arranagements have been entered into for contingent net obligation under operating lease are secured by the lessor's title to the leased asset.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

39. Contingencies

Umovti / uThukela Water (Pty) Ltd

Umovti presented to the municipality an outstanding balance of R407 585 owing by uThukela Water (Pty) Ltd the water service authority whom was responsible for the water reticulation function within the district. Umovti has liaised with uThukela Water (Pty) Ltd to pay the outstanding balance however uThukela Water (Pty) Ltd has advised Umovti that the debt be settled by Umzinyathi, since uMzinyathi took over the reticulation function on the 1st of July 2013. The dispute arises because neither uThukela Water (Pty) Ltd or Umvoti has submitted proof of the liability or debt in a form an invoice or any relevant supporting documentation.

uThukela Water (Pty) Ltd

There's a dispute of an amount of R43 400 474 between uThukela water (Pty) Ltd and Umzinyathi District Municipality as uThukela water (Pty) Ltd claims that the municipality owes an amount of R110 734 609 but can only prove an amount of R64 191 401.

Legal matters pending

There are 8 litigations and value of claims pending against the municipality

Umzinyathi District Municipality vs Consultant

Consultant claims payment arising from a contract . R132 226.78

Umzinyathi District Municipality vs Supplier

Supplier claims payment arising from a contract . R18 210 630.66

Umzinyathi District Municipality vs Supplier

Supplier claims payment arising from a lease agreement. R138 306.07

Umzinyathi District Municipality vs Former employee

A former employee claims payment arising from an alleged contract. R1 230 847.92

Umzinyathi District Municipality vs Employee

An employee has applied to the High Court to set aside a council meeting in which it was decided to place the employee on suspension. R0.00

Umzinyathi District Municipality vs Employee

An employee has approached the SALGBC to uplift the suspension. R160 000.00

Umzinyathi District Municipality vs Supplier

Supplier is claiming payment arising from a contract to assist students with fees. R385 000.00

Umzinyathi District Municipality vs Supplier

Supplier is claiming payment arising from a contract. R329 600.00

40. Related parties

Uthukela Water (Pty) Ltd is considered a related party due to the fact that Umzinyathi District Municipality has a 33,3% shareholding. Uthukela Water (Pty) Ltd supplies Umzinyathi District Municipality with bulk water. This includes both raw and portable water.

Related party transactions

	2016	2015
Purchases from related parties		
Uthukela Water (Pty) Ltd - bulk water	11 366 985	14 627 998

41. Risk management

Liquidity risk

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The municipality's approach is to ensure that sufficient liquidity is available to meet its liabilities when due. The municipality uses cash flow forecasts to ensure that sufficient cash is available to meet expected operating expenses.

The table below provides the municipality's financial liabilities which include borrowings inclusive of interest.

	Up to one year	One to two years	Total
Borrowings	9 041 026	2 838 436	11 879 462

Credit risk

Financial instruments - Investments and receivables		
	-	-
Cash and cash equivalents	60 935 336	57 974 458
Other receivables	12 889 752	8 050 663
Trade receivables	62 043 235	48 562 619
	135 868 323	**114 587 740**

Liabilities and creditors		
Long term liability	66 273 785	68 536 536
Payables from exchange transactions	64 579 563	50 439 767
	130 853 348	**118 976 303**

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Receivables
Receivables are amounts owing by consumers and are presented net of impairment loss. The municipality has a credit control policy in place and the exposure to credit risk is monitored continuously. The municipality establishes an allowance for doubtful debts that represents its estimate of anticipated losses in respect of receivables. Payments of accounts of consumer debtors who are unable to pay, are negotiated in line with the 'credit control policy and terms of payments are agreed upon with the consumer.

Cash and cash equivalents
The municipality limits its exposure to credit risk by investing with only reputable financial institutions and within specific guidelines set in accordance with Council's approved investment policy. The municipality does not consider there to be any significant exposure to credit risk.

Market risk

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

41. Risk management (continued)

Interest rate risk

The municipality's policy is to manage interest rate risk so that fluctuations in variable costs do not have a material impact on surplus. All long-term debt are at fixed rates.

42. Going concern

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

43. Events after the reporting date

- The filling of the CFO post has not been finalized. Council appointed an acting Chief Financial Officer in March but resigned effective from 12 August 2016.
- Contracts that were deemed irregular have subsequently been terminated. Other contracts for non-performing service providers have been terminated.
- Council took a resolution in July 2016 to write-off consumer debtors and to adopt the Revenue enhancement strategy.
- The fully depreciated assets will be re-assessd, their remaining useful lives as per the approved Council Resolution in July 2016.
- Local government elections were held on 3 August 2016 and a new council is anticipated to be appointed before the 7th of September 2016.

44. Fruitless and wasteful expenditure

	2016	2015
Opening balance	672 202	-
Fruitless and wasteful expenditure for the year	70 072 981	672 202
Less: condoned/ written-off amounts	(672 202)	-
	70 072 981	**672 202**

An amount of R672 202 was written off after investgations by council.

A service provider was appointed to drill and rehabilitate boreholes amounting to R70 072 981 these assets could not be verified.

45. Irregular expenditure

	2016	2015
Opening balance	301 418 759	121 755 559
Add: Irregular Expenditure - current year	117 335 282	179 663 200
Less: Amounts written-off	(39 676 454)	-
	379 077 587	**301 418 759**

An amount of R39 676 454 for the 2013/2014 financial year was written off by council after investgations by MPAC through the internal audit unit. The council took resolution to investgate the balance through forensic investgation by Provincial Treasury.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

46. Additional disclosure in terms of Municipal Finance Management Act Section 125

Councillors' and employees' arrear consumer accounts

The following Councillors and Employees 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 Mahaye TM & ML	2 824	45 747	48 571
Councillor Yengwa MS	493	9 910	10 403
Councillor Chambule BS	704	518	1 222
Mncube TE	529	8 129	8 658
Dearlove PD	2 126	51 728	53 854
Mkhwanazi SC	1 819	20 040	21 859
Kumalo P	344	241	585
Zulu VD	192	7 666	7 858
Mawila MP	672	1 925	2 597
Nzimakwe N	-	800	800
Twala NB	779	4 731	5 510
Ndlovu N	-	1 168	1 168
Mazibuko LB	455	3 332	3 787
Ndlovu BE	1 730	32 065	33 795
Moodley S	1 450	27 082	28 532
Thompson MC	298	9 546	9 844
Khoza K	2 106	11 550	13 656
Mlambo RK	1 717	681	2 398
Williams S	300	4 911	5 211
Goge MD	9	338	347
Ntuli DS	195	403	598

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Mahaye TM & ML	2 194	36 623	38 817
Councillor Mthombeni NB & CG	769	18 106	18 875
Councillor Khanyile N	378	6 221	6 599
Councillor Mncube TE	494	6 787	7 281
Councillor Yengwa MS	741	8 989	9 730
Councillor Chambule BS	271	1 030	1 301
Malunga NM	1 804	42 708	44 512
Dearlove PD	1 770	45 321	47 091
Mkhwanazi SC	1 269	20 850	22 119
Kumalo P	1 555	15 150	16 705
Zulu VD	144	7 138	7 282
Mawila MP	582	5 578	6 160
Nzimakwe N	-	1 700	1 700
Malunga MS	99	3 358	3 457
Zulu SK	248	2 321	2 569
Twala NB	455	2 770	3 225
Ndlovu N	-	1 168	1 168
Dlodlo MB and MM	213	2 150	2 363
Mvelase S	-	991	991
Mazibuko LB	591	746	1 337
Malunga T	916	7 689	8 605
Ndlovu BE	1 278	27 615	28 893
Moodley S	1 070	23 865	24 935
Thompson MC	336	7 946	8 282
Khoza K	2 122	5 887	8 009

46. Additional disclosure in terms of Municipal Finance Management Act Section 125 (continued)

Mlambo RK	612	7 118	7 730
Williams S	168	3 987	4 155
Munessar A	520	2 113	2 633
Goge MD	21	275	296
Shangase CB	331	241	572
Ndlovu STN	-	3	3
	20 951	**316 444**	**337 395**

47. 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 council and includes a note to the annual financial statements.

Figures in Rand	2016	2015
SCM regulations 36		
Expenditure incurred	20 955	634 020

Figures in Rand	2016	2015
SCM regulations 32		
New Intergrated Solutions (NICS)	-	231 624
Pricewaterhouse Coopers (PWC)	-	59 850
DNS security solutions	399 000	-
Aquaplan JV Fransi Masedi	31 997 227	-
	32 396 227	**291 474**

The above appointments were done in accordance with regulations 36 and 32 which were approved by the Accounting Officer and ratified by the Council.

48. Water loss distribution

Figures in Rand	2016	2015
Bulk water figures in kl		
Msinga Fabeni WTW	1 185	20 615
Msinga Keats Drift WTW	346 270	257 310
Msinga Sampofu (Tugela Ferry) WTW	1 091 986	1 131 220
Msinga Sampofu Weir (Pomeroy) WTW	64 668	99 669
Umvoti Makhabeleni WTW Meter	356 427	229 274
Umvoti Greytown WTW	593 854	1 503 468
Umvoti Muden WTW	628 910	586 790
Umvoti Kranskop WTW	166 488	181 443
Nquthu Isandlwana WTW	77 328	114 295
Nquthu Nondweni WTW	547 350	719 440
Nquthu Nquthu/Vant's Drift WTW	2 984 940	3 184 880
Nquthu Qudeni WTW	56 707	152 024
Endumeni Biggarsberg WTW	4 471 935	5 422 030
	11 388 048	**13 602 458**

Figures in Rand	2016	2015
Total water loss		
Total water produced	(11 388 048)	(13 602 458)
Total water sold	5 226 318	6 519 046
	(6 161 730)	**(7 083 412)**

The monetary value of water loss is R 40 160 677.

The water loss percentage is 54%.

48. Water loss distribution (continued)

- Umzinyathi District Municipality is mostly dominated with rural arears
- Most of our rural arears have stand pipes per standards set by Water Affairs
- Other rural areas have no water infrastructure thus water tankers are delivering water to them and these tankers are getting water from our plants and collection point sets in our water network
- The municipality experienced a lot of burst pipes in our reticulation line due to aging infrastructure.
- Illegal connections in most of our rural areas have huge impact in unaccounted water as they are most metered.
- The municipality experienced a lot of burst pipes in our reticulation line due to drought.
- The municipality has experienced a lot of internal leaks from domestic consumers and there's a programme that the municipality will be running to fix these leaks.

49. Transfer of functions Between entities not under common control

Uthukela Water (Pty) Ltd is an entity of three WSA's, namely Amajuba DM, Newcastle LM and Umzinyathi DM. The interest in this joint venture is at 33,3%, 33,4% and 33,3% respectively.

The voting rights are represented by the percentage shareholding in the entity. The transfer of function was initiated by the directive from the MEC: COGTA.

It stipulated that the function, including the infrastructure assets must be transferred back to the WSA's. The process was started and completed by the 30 June 2014, This arrangement is currently in place.Refer to note 9 for further details.