

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended**

**30 June 2017**

I am responsible for the preparation of these financial statements, which are set out on pages 1 to 107, 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, as disclosed in note 25 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 Cooperative Governance and Traditional Affairs' determination in accordance with the Act.



**JOHANN METTLER**  
(B.Proc, LLB and LLM)  
**City Manager**

04 December 2017  
Date

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
**CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2017**

**General Information**

<b>Legal form of entity</b>	It is a Metropolitan Municipality established in terms of section 155 of the Constitution of the Republic of South Africa (Act 108 of 1996)
<b>Nature of business and principal activities</b>	Local Government
	The principal activities are:
	- To provide democratic and accountable government to the local communities;
	- To ensure sustainable service delivery to communities;
	- To promote social and economic development;
	- To promote a safe and healthy environment; and
	- Encourage the involvement of communities and community organisations in the matters of local government.
	The Municipality's operations are governed by the Municipal Finance Management Act (Act 56 of 2003), the Municipal Structures Act (Act 117 of 1998), the Municipal Systems Act (Act 32 of 2000) and various other acts and regulations.
<b>Executive Mayor</b>	Cllr A Trollip
<b>Deputy Executive Mayor</b>	Cllr M Bobani
<b>Speaker</b>	Cllr J Lawack
<b>Chief Whip</b>	Cllr W Senekal
<b>Members of the Mayoral Committee</b>	Cllr A Lovemore (Infrastructure and Engineering and Electricity and Energy) Cllr R Kayser (Roads and Transport) Cllr D Biddulph (Corporate Services) Cllr J Best (Safety and Security) Cllr A Whitfield (Economic Development, Tourism and Agriculture) Cllr S Sijadu (Sports, Recreation Arts and Culture) Cllr A Trollip (Public Health) Cllr N Bhanga (Human Settlements) Cllr R Odendaal (Budget and Treasury) Cllr S Sauls (Constituency Services) Cllr L Grootboom (Municipal Public Accounts)
<b>Accounting Officer (City Manager)</b>	J Mettler
<b>Chief Financial Officer (Acting CFO)</b>	B de Scande

<b>Chief Operating Officer (COO)</b>	M Clay
<b>Chief of Staff</b>	K Adelbert
<b>Metro Police Chief</b>	Y Faro
<b>Executive Directors</b>	V Zitumane (Acting - Corporate Services) A Qaba (Economic Development, Tourism and Agriculture) N Nqwazi (Sports, Recreation, Arts and Culture) T Mokonyane (Acting - Public Health) N Gqiba (Human Settlements) P Nielson (Acting - Electricity and Energy) EW Shaidi (Infrastructure and Engineering) S Brown (Acting - Safety and Security)
<b>Members of the Audit Committee</b>	Mr G Billson (Chairperson) Ms T Cumming Mr J Neves Dr M Nicholls Ms L Smith
<b>Registered Office</b>	1 <sup>st</sup> Floor City Hall Govan Mbeki Avenue Port Elizabeth 6001
<b>Business Address</b>	1 <sup>st</sup> Floor City Hall Govan Mbeki Avenue Port Elizabeth 6001
<b>Postal Address</b>	P O Box 116 Port Elizabeth 6000
<b>Bankers</b>	ABSA
<b>Auditors</b>	Auditor-General (SA)
<b>Physical Address of Auditors</b>	69 Frere Road Vincent East London 5247
<b>Postal Address of Auditors</b>	P O Box 13252 East London 5217

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017**

	Note	ECONOMIC ENTITY		MUNICIPALITY	
		Actual 2017 R	Restated 2016 R	Actual 2017 R	Restated 2016 R
<b>NET ASSETS AND LIABILITIES</b>					
<b>Net Assets</b>					
Total Accumulated Funds		<b>13,462,775,826</b>	<b>12,724,929,623</b>	<b>13,454,536,883</b>	<b>12,717,093,053</b>
<b>Non-current Liabilities</b>					
		<b>3,648,213,964</b>	<b>3,312,031,648</b>	<b>3,646,877,997</b>	<b>3,311,165,763</b>
Long-term Liabilities	3	1,289,568,185	1,376,718,616	1,289,121,450	1,376,718,616
Deferred Income	3.1	889,232	865,885	0	0
Employee Benefit Obligation	4.1	1,989,244,328	1,472,243,701	1,989,244,328	1,472,243,701
Non-current Provisions	4.2	368,512,219	462,203,446	368,512,219	462,203,446
<b>Current Liabilities</b>					
		<b>2,332,780,925</b>	<b>2,259,707,946</b>	<b>2,312,975,020</b>	<b>2,246,413,411</b>
Current Employee Benefit Obligation	5.1	162,944,588	77,963,496	161,880,670	77,250,866
Current Provisions	5.2	92,188,982	47,776,422	92,188,982	47,776,422
Consumer Deposits	6	131,340,356	123,959,190	131,340,356	123,959,190
Creditors - Exchange Transactions	7	1,751,142,589	1,701,971,576	1,736,754,829	1,694,866,182
Unspent Conditional Grants and Receipts	8	47,199,450	200,573,914	44,252,261	196,616,549
VAT Payable	17	60,875,788	12,024,464	60,148,639	12,024,464
Current Portion of Long-term Liabilities	3	87,089,172	95,438,884	86,409,283	93,919,738
<b>Total Net Assets and Liabilities</b>		<b><u>19,443,770,715</u></b>	<b><u>18,296,669,217</u></b>	<b><u>19,414,389,900</u></b>	<b><u>18,274,672,227</u></b>
<b>ASSETS</b>					
<b>Non-current Assets</b>					
		<b>15,643,788,049</b>	<b>14,816,560,936</b>	<b>15,636,155,122</b>	<b>14,808,724,365</b>
Property, Plant and Equipment (PPE)	9	15,102,725,907	14,334,706,157	15,095,379,472	14,327,208,664
Heritage Assets	10	224,222,631	206,087,322	223,972,131	205,836,822
Intangible Assets	11	59,148,972	54,180,371	59,112,980	54,091,793
Investment Property	12	193,631,195	197,280,265	193,631,195	197,280,265
Long-term Receivables - Exchange Transactions	13	35,228,696	13,346,342	35,228,696	13,346,342
Long-term Receivables - Non-exchange Transactions	13	28,830,648	10,960,479	28,830,648	10,960,479
<b>Current Assets</b>					
		<b>3,799,982,666</b>	<b>3,480,108,281</b>	<b>3,778,234,778</b>	<b>3,465,947,862</b>
Current Portion of Long-term Receivables - Exchange Transactions	13	20	80	20	80
Inventory	14	198,395,729	145,373,625	197,867,287	145,373,625
Consumer Debtors - Exchange Transactions	15	1,215,010,058	1,037,542,429	1,215,010,058	1,037,542,429
Consumer Debtors - Non-exchange Transactions	15	329,060,406	229,542,790	329,060,406	229,542,790
Other Debtors - Exchange Transactions	16	398,558,388	439,456,709	436,215,934	461,871,231
VAT Refund	17	25,932,771	13,217,292	25,932,771	10,742,805
Short-term Investments	18	2,651,551	2,469,871	2,651,551	2,469,871
Short-term Investment Deposits	18	1,344,722,731	1,365,337,861	1,344,722,731	1,365,337,861
Bank Balances and Cash	19	285,651,012	247,167,624	226,774,020	213,067,170
<b>Total Assets</b>		<b><u>19,443,770,715</u></b>	<b><u>18,296,669,217</u></b>	<b><u>19,414,389,900</u></b>	<b><u>18,274,672,227</u></b>

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
**CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE YEAR ENDED 30 JUNE 2017**

Restated 2016 R		Actual 2017 R	Approved Original Budget 2017 R	Adjustments 2017 R	Approved Final Budget 2017 R	Variance between Final Budget and Actual R	%	No.
<b>REVENUE</b>								
<b>Exchange revenue</b>								
4,649,223,911	Service Charges	21.1	4,882,016,499	4,988,019,080	(64,722,340)	4,923,296,740	41,280,241	1%
113,598,806	Interest earned - Investments		120,853,700	92,295,160	4,939,200	97,234,360	(23,801,021)	-24%
(244,696)	Interest earned - Fair Value Adjustment		181,681	0	0	0	0	
106,336,403	Interest raised - Outstanding Debtors		113,655,942	110,794,950	0	110,794,950	(2,860,992)	-3%
9,332,097	Licences and Permits		10,473,000	13,791,090	0	13,791,090	3,318,090	24%
21,041,730	Rental of Facilities and Equipment		22,979,856	23,754,860	591,790	24,346,650	1,366,794	6%
2,345,495	Income for Agency Services		2,502,524	2,574,080	(1,130)	2,572,950	70,426	3%
310,138,382	Other Income	23	267,969,372	343,278,468	(73,846,838)	269,431,630	1,462,258	1%
27,900	Gain on disposal of Property Plant and Equipment	35.9	605,938	30,000	0	30,000	(575,938)	-1920%
<b>Non-exchange revenue</b>								
1,502,463,322	Property Rates	20	1,639,398,711	1,638,303,910	(19,302,660)	1,619,001,250	(20,397,461)	-1%
54,345,480	Interest raised - Outstanding Debtors		65,111,583	58,070,280	0	58,070,280	(7,041,303)	-12%
224,461,137	Fines	21.2	202,307,270	242,441,060	(21,235,910)	221,205,150	18,897,880	9%
1,148,939,836	Government Grants and Subsidies - Operating	22	954,122,281	1,385,050,980	54,630,640	1,439,681,620	485,559,339	34%
777,512,325	Government Grants and Subsidies - Capital	22	905,519,391	830,666,540	98,935,971	929,602,511	24,083,120	3%
113,831,721	Government Grants - VAT recognised	23	137,541,826	124,965,650	0	124,965,650	(12,576,176)	-10%
472,552,000	Fuel levy	23	496,799,000	496,799,010	0	496,799,010	10	0%
52,011,251	Public Contributions	23	67,636,848	15,238,622	(15,238,622)	0	(67,636,848)	100%
506,269	Other Income - MBDA	23	1,829,483	450,000	0	450,000	(1,379,483)	-307%
76,692	Dividends received		341,264	0	0	0	(341,264)	100%
<b>9,558,500,061</b>	<b>Total Revenue</b>		<b>9,891,846,169</b>	<b>10,366,523,740</b>	<b>(35,249,899)</b>	<b>10,331,273,841</b>	<b>439,427,672</b>	
<b>EXPENDITURE</b>								
2,343,747,075	Employee Related Costs	24	3,060,663,137	2,501,614,510	(31,182,550)	2,470,431,960	(590,231,177)	-24%
62,195,844	Remuneration of Councillors	25	64,283,888	67,715,810	(1,599,870)	66,115,940	1,832,052	3%
625,575,070	Impairment - receivables	26	437,845,259	423,345,990	264,554,890	687,900,880	250,055,621	36%
166,492,003	Finance cost	27	155,281,109	158,019,260	0	158,019,260	2,738,151	2%
2,815,732,219	Bulk Purchases	28	3,010,600,384	2,991,096,130	27,500,000	3,018,596,130	7,995,746	0%
22,835,417	Grants and Subsidies Paid	29	47,461,849	73,469,020	6,680,000	80,149,020	32,687,171	41%
481,774,700	Contracted Services	30.1	650,010,502	525,974,390	58,452,160	584,426,550	(65,583,952)	-11%
743,705,579	General Expenses	30.2	606,008,883	1,280,666,396	36,765,300	1,317,431,696	711,422,813	54%
409,289,245	Repairs and Maintenance		342,298,119	457,647,810	(26,221,100)	431,426,710	89,128,591	21%
673,996,353	Depreciation - Property, Plant and Equipment	31.1	589,035,787	767,486,940	(12,156,930)	755,330,010	166,294,223	22%
6,076,236	Depreciation - Investment Property	31.2	6,071,310	5,000,000	0	5,000,000	(1,071,310)	0%
120,115,667	Amortisation	31.3	17,463,677	75,000,000	0	75,000,000	57,536,323	0%
295,113,429	Impairment - Other	35.7	165,679,512	176,446,340	(2,741,950)	173,704,390	8,024,878	5%
33,863	Loss on Disposal of Property Plant and Equipment	35.8	1,296,550	0	0	0	(1,296,550)	100%
<b>8,766,682,700</b>	<b>Total Expenditure</b>		<b>9,153,999,966</b>	<b>9,503,482,596</b>	<b>320,049,950</b>	<b>9,823,532,546</b>	<b>669,532,580</b>	
<b>791,817,361</b>	<b>Surplus for the year</b>		<b>737,846,203</b>	<b>863,041,144</b>	<b>(355,299,849)</b>	<b>507,741,295</b>	<b>(230,104,908)</b>	

Refer to Note 53 of the Financial Statements for explanation of variances

(Please note: Surplus for the year R737 846 203 less Government Grants and Subsidies - Capital R905 519 391 = True Deficit for the year in the amount of R167 673 188)

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
**STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE YEAR ENDED 30 JUNE 2017**

Restated 2016 R		Actual 2017 R	Approved Original Budget 2017 R	Adjustments 2017 R	Approved Final Budget 2017 R	Variance between Final Budget and Actual R	%	No.
<b>REVENUE</b>								
<b>Exchange revenue</b>								
4,649,307,826	Service Charges	21.1	4,882,264,103	4,988,019,080	(64,722,340)	4,923,296,740	41,032,637	1%
109,602,562	Interest earned - Investments		118,465,741	88,295,160	4,939,200	93,234,360	(25,413,062)	-27%
(244,696)	Interest earned - Fair Value Adjustment		181,681	0	0	0	0	
106,336,403	Interest raised - Outstanding Debtors		113,655,942	110,794,950	0	110,794,950	(2,860,992)	-3%
9,332,097	Licences and Permits		10,473,000	13,791,090	0	13,791,090	3,318,090	24%
21,041,730	Rental of Facilities and Equipment		22,813,246	23,754,860	591,790	24,346,650	1,533,404	6%
2,345,495	Income for Agency Services		2,502,524	2,574,080	(1,130)	2,572,950	70,426	3%
310,138,382	Other Income	23	267,969,372	358,517,090	(89,085,460)	269,431,630	1,462,258	1%
27,900	Gain on disposal of Property Plant and Equipment	35.9	605,938	30,000	0	30,000	(575,938)	-1920%
<b>Non-exchange revenue</b>								
1,502,463,322	Property Rates	20	1,639,398,711	1,638,303,910	(19,302,660)	1,619,001,250	(20,397,461)	-1%
54,345,480	Interest raised - Outstanding Debtors		65,111,583	58,070,280	0	58,070,280	(7,041,303)	-12%
224,461,137	Fines	21.2	202,307,270	242,441,060	(21,235,910)	221,205,150	18,897,880	9%
1,148,939,836	Government Grants and Subsidies - Operating	22	954,122,281	1,385,050,980	39,944,040	1,424,995,020	470,872,739	33%
777,512,325	Government Grants and Subsidies - Capital	22	905,519,391	804,613,090	49,574,397	854,187,487	(51,331,904)	-6%
113,831,721	Government Grants - VAT recognised	23	137,541,826	124,965,650	0	124,965,650	(12,576,176)	-10%
472,552,000	Fuel levy	23	496,799,000	496,799,010	0	496,799,010	10	0%
43,971,951	Public Contributions	23	57,060,680	0	63,000,000	63,000,000	5,939,320	9%
76,692	Dividends received		341,264	0	0	(341,264)		100%
<b>9,546,042,163</b>	<b>Total Revenue</b>		<b>9,877,133,553</b>	<b>10,336,020,290</b>	<b>(36,298,073)</b>	<b>10,299,722,217</b>	<b>422,588,664</b>	
<b>EXPENDITURE</b>								
2,329,843,840	Employee Related Costs	24	3,044,676,428	2,482,306,510	(31,182,550)	2,451,123,960	(593,552,468)	-24%
62,195,844	Remuneration of Councillors	25	64,283,888	67,715,810	(1,599,870)	66,115,940	1,832,052	3%
625,533,331	Impairment - receivables	26	437,819,838	423,295,990	264,554,890	687,850,880	250,031,042	36%
166,488,260	Finance cost	27	155,281,109	157,804,080	0	157,804,080	2,522,971	2%
2,815,732,219	Bulk Purchases	28	3,010,600,384	2,991,096,130	27,500,000	3,018,596,130	7,995,746	0%
69,016,114	Grants and Subsidies Paid	29	109,052,086	160,191,530	11,680,000	171,871,530	62,819,444	37%
481,774,700	Contracted Services	30.1	650,010,502	525,974,390	58,452,160	584,426,550	(65,583,952)	-11%
706,056,638	General Expenses	30.2	547,054,862	1,236,937,670	39,755,360	1,276,692,970	729,638,108	57%
408,710,164	Repairs and Maintenance		342,194,614	457,647,810	(26,221,100)	431,426,710	89,232,096	21%
673,641,236	Depreciation - Property, Plant and Equipment	31.1	588,389,018	767,168,940	(12,556,930)	754,612,010	166,222,992	22%
6,076,236	Depreciation - Investment Property	31.2	6,071,310	5,000,000	0	5,000,000	(1,071,310)	0%
120,055,830	Amortisation	31.3	17,411,091	75,000,000	0	75,000,000	57,588,909	0%
295,113,429	Impairment - Other	35.7	165,679,512	176,446,340	(2,741,950)	173,704,390	8,024,878	5%
0	Loss on Disposal of Property Plant and Equipment	35.8	1,165,081	0	0	0	(1,165,081)	100%
<b>8,760,237,841</b>	<b>Total Expenditure</b>		<b>9,139,689,723</b>	<b>9,526,585,200</b>	<b>327,639,950</b>	<b>9,854,225,150</b>	<b>714,535,427</b>	
<b>785,804,322</b>	<b>Surplus for the year</b>		<b>737,443,830</b>	<b>809,435,090</b>	<b>(363,938,023)</b>	<b>445,497,067</b>	<b>(291,946,763)</b>	

Refer to Note 53 of the Financial Statements for explanation of variances

(Please note: Surplus for the year R737 443 830 less Government Grants and Subsidies - Capital R905 519 391 = True Deficit for the year in the amount of R168 075 561)

<b>NELSON MANDELA BAY MUNICIPALITY</b>	
<b>CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED</b>	
<b>30 JUNE 2017</b>	
	<u>Accumulated Funds</u>
	R
<b>Balance at 01 July 2015 as previously reported</b>	11,946,858,717
Restatements (Refer note 40.2)	(13,746,455)
<b>Restated Balance at 01 July 2015</b>	<b>11,933,112,262</b>
Surplus for the year as previously reported	783,175,595
Decrease in Surplus (Refer note 40.1.1)	8,641,766
<b>Restated Surplus for the year</b>	<b>791,817,361</b>
<b>Restated Balance at 30 June 2016</b>	<b>12,724,929,623</b>
<b>Balance at 01 July 2016</b>	<b>12,724,929,623</b>
Surplus for the year	737,846,203
<b>Balance at 30 June 2017</b>	<b>13,462,775,826</b>

<b>NELSON MANDELA BAY MUNICIPALITY</b>	
<b>STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2017</b>	
	<u>Accumulated Funds</u>
	R
<b>Balance at 01 July 2015 as previously reported</b>	11,945,362,039
Restatements (Refer note 40.2)	(14,073,308)
<b>Restated Balance at 01 July 2015</b>	<b>11,931,288,731</b>
Surplus for the year as previously reported	777,162,556
Decrease in Surplus (Refer note 40.1.1)	8,641,766
<b>Restated Surplus for the year</b>	<b>785,804,322</b>
<b>Restated Balance at 30 June 2016</b>	<b>12,717,093,053</b>
<b>Balance at 01 July 2016</b>	<b>12,717,093,053</b>
Surplus for the year	737,443,830
<b>Balance at 30 June 2017</b>	<b>13,454,536,883</b>

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
**THE CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017**

	Note	ECONOMIC ENTITY		MUNICIPALITY	
		Actual	Restated	Actual	Restated
		2017	2016	2017	2016
		R	R	R	R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
<b>Cash receipts from ratepayers, government and other</b>		<b>9,443,051,446</b>	<b>9,488,401,717</b>	<b>9,420,277,948</b>	<b>9,468,678,959</b>
- Sale of goods and services, fines and taxes levied		7,460,513,241	7,237,646,741	7,440,134,469	7,220,693,097
- Grants		1,861,336,474	2,138,306,608	1,861,336,474	2,138,306,608
- Dividends received		341,264	76,692	341,264	76,692
- Interest received		120,860,467	112,371,676	118,465,741	109,602,562
<b>Cash paid to suppliers and employees</b>		<b>(7,948,012,599)</b>	<b>(7,595,724,879)</b>	<b>(7,950,642,360)</b>	<b>(7,562,177,482)</b>
- Employee Costs		(2,393,169,625)	(2,053,744,094)	(2,377,182,916)	(2,039,840,859)
- Suppliers		(5,397,218,941)	(5,373,142,841)	(5,415,835,411)	(5,353,498,679)
- Finance Cost	27	(157,624,033)	(168,837,944)	(157,624,033)	(168,837,944)
<b>CASH GENERATED FROM OPERATIONS</b>	32	<b>1,495,038,847</b>	<b>1,892,676,838</b>	<b>1,469,635,588</b>	<b>1,906,501,477</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of PPE		(1,345,607,709)	(1,564,436,421)	(1,344,980,988)	(1,558,813,475)
Proceeds on Disposal of PPE		605,938	27,900	605,938	27,900
Loss on Disposal of PPE		0	(99,885)	0	0
Purchase of Intangible assets		(17,691,531)	(47,026,784)	(17,691,531)	(47,017,954)
Purchase of Investment Property		(2,422,240)	(5,187,617)	(2,422,240)	(5,187,617)
Purchase of Heritage Assets		(18,135,309)	(5,194,326)	(18,135,309)	(5,194,326)
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>		<b>(1,383,250,851)</b>	<b>(1,621,917,133)</b>	<b>(1,382,624,130)</b>	<b>(1,616,185,472)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Repayment of Non-current Liabilities (external loan funding)	33	(93,919,738)	(104,092,766)	(93,919,738)	(104,092,766)
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>		<b>(93,919,738)</b>	<b>(104,092,766)</b>	<b>(93,919,738)</b>	<b>(104,092,766)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>17,868,258</b>	<b>166,666,939</b>	<b>(6,908,280)</b>	<b>186,223,239</b>
Cash and cash equivalents at the beginning of the year		1,612,505,485	1,445,838,546	1,578,405,031	1,392,181,792
Cash and cash equivalents at the end of the year	34	<b>1,630,373,743</b>	<b>1,612,505,485</b>	<b>1,571,496,751</b>	<b>1,578,405,031</b>



NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
 NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	Economic Entity		Municipality	
	2017 R	Restated 2016 R	2017 R	Restated 2016 R
<b>RESERVES GOVERNED BY AN ACT: Note 1 and Note 2</b>				
<b>1 HOUSING DEVELOPMENT FUND</b>				
Housing Revolving Fund	109,731,779	109,731,779	109,731,779	109,731,779
Housing Reserves	0	0	0	0
<b>Total Housing Development Fund</b>	<b>109,731,779</b>	<b>109,731,779</b>	<b>109,731,779</b>	<b>109,731,779</b>

The amount for this note has been included in the Total Accumulated Funds.

**Housing Revolving Fund**

<b>Balance at the beginning of the year</b>	<b>109,731,779</b>	<b>108,605,509</b>	<b>109,731,779</b>	<b>108,605,509</b>
Transfer from Housing Reserves	0	1,126,270	0	1,126,270
<b>Balance at the end of the year</b>	<b>109,731,779</b>	<b>109,731,779</b>	<b>109,731,779</b>	<b>109,731,779</b>

The purpose of the Housing Revolving Fund is to provide bridging financing for Provincial Housing Board approved housing developments. Contributions consist of cash received from the Provincial Housing Board.

**HOUSING RESERVES**

Community Facilities	0	0	0	0
Replacement and Renewals	0	0	0	0
<b>Balance at the end of the year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**Community Facilities**

<b>Balance at the beginning of the year</b>	<b>0</b>	<b>160,631</b>	<b>0</b>	<b>160,631</b>
Transfer to Housing Revolving Fund	0	(160,631)	0	(160,631)
<b>Balance at the end of the year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**Replacement and Renewals**

<b>Balance at the beginning of the year</b>	<b>0</b>	<b>965,639</b>	<b>0</b>	<b>965,639</b>
Transfer to Housing Revolving Fund	0	(965,639)	0	(965,639)
<b>Restated Balance at beginning of year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

The housing reserves are required in terms of National Housing Fund regulations. The housing reserves can only be utilised to maintain housing stock.

**2 COID RESERVE**

<b>Balance at the beginning of the year</b>	<b>28,557,560</b>	<b>24,831,196</b>	<b>28,557,560</b>	<b>24,831,196</b>
Premiums received - transfer from accumulated surplus	5,949,185	5,437,233	5,949,185	5,437,233
Expenditure funded during the year - transfer to accumulated surplus	(1,472,938)	(1,710,869)	(1,472,938)	(1,710,869)
<b>Balance at the end of the year</b>	<b>33,033,807</b>	<b>28,557,560</b>	<b>33,033,807</b>	<b>28,557,560</b>

The amount for this note has been included in the Total Accumulated Funds.

The COID Reserve is required in terms of Section 84 of the Compensation for Occupational Injuries and Diseases Act (No. 130 of 1993) as the Nelson Mandela Bay Municipality (NMBM) has been exempted from making contributions to the Compensation Commissioner for Occupational Injuries and Diseases.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

3. LONG-TERM LIABILITIES	Economic Entity		Municipality	
	2017 R	Restated 2016 R	2017 R	Restated 2016 R
<b>Financial Liabilities:</b>				
Development Bank of Southern Africa (DBSA)	370,149,250	382,915,356	370,149,250	382,915,356
Amalgamated Banks of South Africa (ABSA)	15,000,000	45,000,000	15,000,000	45,000,000
Rand Merchant Bank	411,867,095	424,725,205	411,867,095	424,725,205
Nedbank	560,763,861	601,402,307	560,763,861	601,402,307
<b>Total External Loans</b>	<b>1,357,780,206</b>	<b>1,454,042,868</b>	<b>1,357,780,206</b>	<b>1,454,042,868</b>
Construction Contract Retention	1,126,624	1,519,146	0	0
Brookes Bequest	17,750,527	16,595,486	17,750,527	16,595,486
<b>Total Long-term Liabilities</b>	<b>1,376,657,357</b>	<b>1,472,157,500</b>	<b>1,375,530,733</b>	<b>1,470,638,354</b>
<b>Less : Current portion transferred to current liabilities</b>	<b>87,089,172</b>	<b>95,438,884</b>	<b>86,409,283</b>	<b>93,919,738</b>
Development Bank of Southern Africa (DBSA)	13,872,609	12,406,679	13,872,609	12,406,679
Amalgamated Banks of South Africa (ABSA)	15,000,000	30,000,000	15,000,000	30,000,000
Rand Merchant Bank	14,089,689	12,750,812	14,089,689	12,750,812
Nedbank	43,446,985	38,762,247	43,446,985	38,762,247
Construction Contract Retention	679,889	1,519,146	0	0
	<b>1,289,568,185</b>	<b>1,376,718,616</b>	<b>1,289,121,450</b>	<b>1,376,718,616</b>

The Financial liabilities are measured at amortised cost taking into account relevant interest rates.

In line with Chapter 6 of the MFMA, no loans are secured.

#### ABSA

The loan was taken up during the 2007/08 financial year and is repayable over 10 years in 20 half-yearly instalments, by 31 December 2017, at a fixed interest rate of 11.85% per annum. The loan was used to finance various electricity reticulation projects. A capital amount of R30 000 000 and interest of R4 446 185 was repaid during the financial year. (2016: Capital repaid R30 000 000 and Interest paid R8 025 534 )

#### DBSA

Various loans were consolidated into one single loan amounting to R238 297 599 with effect from 30 September 2005, repayable over 10 years in 20 half-yearly instalments, by 30 September 2015, including accrued interest. There are two choices of variable interest rate linked to the 6 month JIBAR or to the 3 month JIBAR and a fixed interest rate linked to Government Bond R157. From 1 October 2005 to 30 September 2006 the interest was calculated linked to the six month JIBAR, but on 1 October 2006 the interest rate was fixed, linked to the Government Bond R157 at 9.38%. Council has the right to amend the interest rate between variable or fixed. The loan was completely repaid during the prior financial year. (2016: Capital repaid R17 107 749 and Interest paid R804 552)

A further loan of R420 000 000 was taken up during the 2008/09 financial year and is repayable over 20 years in 38 half yearly instalments of R27 651 367, by 30 September 2029, at a fixed interest rate of 11.62% per annum with a final payment of R27 651 367. The loan was used for various capital projects. A capital amount of R12 406 679 and interest of R42 896 054 was repaid during the financial year. (2016: Capital repaid R10 974 169 and Interest paid R44 328 564)

#### NEDBANK

The loan of R745 000 000 was taken up during the 2009/10 financial year and is repayable over 15 years in 30 half yearly instalments of R52 372 749, by 31 January 2025, at a fixed interest rate of 11.7% per annum. The loan was used for various capital projects. A capital amount of R38 762 247 and interest of R66 005 750 was repaid during the financial year. (2016: Capital repaid R34 810 813 and Interest paid R69 957 185)

#### RAND MERCHANT BANK

The loan of R470 000 000 was taken up during the 2010/11 financial year and is repayable over 20 years in 40 half yearly instalments of R27 779 027, by 31 May 2031, at a fixed interest rate of 10.24% per annum. The loan was used for various capital projects. A capital amount of R12 750 812 and interest of R42 807 243 was repaid during the financial year. (2016: Capital repaid R11 200 036 and Interest paid R44 358 018)

#### BROOKES BEQUEST

Brookes bequest represents a long-term creditor. The funds can only be utilised by the NMBM when the two remaining Trustees approve the donation of funds to the NMBM. The funds may be utilised for capital projects related to the development of Humewood. The fund bears interest at an average of 6.75% per annum.

#### CONSTRUCTION CONTRACT RETENTION

Construction contract retention creditors relate to retentions held in projects in line with accepted construction accounting principles. Such retentions are payable 3 to 12 months after official sign off of the project, and are non-interest bearing.

#### 3.1 DEFERRED INCOME

Operating Lease	1,125,382	1,102,035	0	0
Less : Current portion transferred to current liabilities	(236,150)	(236,150)	0	0
	<b>889,232</b>	<b>865,885</b>	<b>0</b>	<b>0</b>

Refer Restatement Note no. 40.2.5

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

4.1 EMPLOYEE BENEFIT OBLIGATION	Economic Entity		Municipality	
	2017	Restated 2016	2017	Restated 2016
	R	R	R	R
Gratuity Benefit	10,181,000	30,673,874	10,181,000	30,673,874
Post Retirement Benefits	1,341,835,835	1,324,956,140	1,341,835,835	1,324,956,140
Long Service Awards and Long Service Bonus	637,227,493	116,613,687	637,227,493	116,613,687
<b>Total Employee Benefit Obligation</b>	<b>1,989,244,328</b>	<b>1,472,243,701</b>	<b>1,989,244,328</b>	<b>1,472,243,701</b>

Refer to Note 47 for the full reconciliation and disclosures.

**Gratuity Benefit**

This obligation is in respect of the long-term liability relating to gratuities payable to employees that were not previously members of a pension fund.

<b>Balance at beginning of year</b>	30,673,874	30,859,879	30,673,874	30,859,879
Movement in Obligation	(20,492,874)	(186,005)	(20,492,874)	(186,005)
<b>Balance at end of year</b>	<b>10,181,000</b>	<b>30,673,874</b>	<b>10,181,000</b>	<b>30,673,874</b>

**Post Retirement Benefits**

The past service liability in respect of post retirement benefits relates to ill-health retirements and medical aid contributions, and ex-gratia pensions which have been actuarially assessed at R1 341 835 835.

<b>Balance at beginning of year</b>	1,324,956,140	1,223,674,216	1,324,956,140	1,223,674,216
Movement in Obligation	16,879,695	101,281,924	16,879,695	101,281,924
<b>Balance at end of year</b>	<b>1,341,835,835</b>	<b>1,324,956,140</b>	<b>1,341,835,835</b>	<b>1,324,956,140</b>

**Long Service Awards and Long Service Bonus**

This obligation is in respect of the long service award and long service bonus which the Municipality offers to its current employees and which become payable at certain pre-determined intervals.

<b>Balance at beginning of year</b>	116,613,687	114,811,531	116,613,687	114,811,531
Contributions to Obligation	520,613,806	1,802,156	520,613,806	1,802,156
<b>Balance at end of year</b>	<b>637,227,493</b>	<b>116,613,687</b>	<b>637,227,493</b>	<b>116,613,687</b>

4.2 **NON-CURRENT PROVISIONS**

Rehabilitation of Landfill sites	291,348,345	380,585,851	291,348,345	380,585,851
Rehabilitation of Swartkops River	77,163,874	81,617,595	77,163,874	81,617,595
<b>Total Non-current Provisions</b>	<b>368,512,219</b>	<b>462,203,446</b>	<b>368,512,219</b>	<b>462,203,446</b>

**Rehabilitation of landfill sites**

In terms of the licensing conditions of the landfill refuse sites, Council will incur rehabilitation costs of R183 185 296 for the Arlington Landfill site, R88 411 055 for the Koedoeskloof Landfill site and R121 669 070 for the Ibhayi Landfill site determined at net present value to restore the sites at the end of their useful lives estimated to be in 2027 (Arlington) and 2020 (Koedoeskloof). Squatters are currently occupying the Ibhayi Landfill site that is already closed. Provision has been made for the rehabilitation of the landfill sites based on the net present value of cost. For Arlington and Koedoeskloof landfill sites, the cost factors as determined have been applied and projected at an inflation rate of 5.1%. The projected amounts are discounted to the present value at the long term Treasury Bond rate of 2.50%, for Arlington and at an average borrowing cost of 10.27% for Koedoeskloof. The determined cost to rehabilitate Ibhayi landfill site represents the present value.

<b>Balance at beginning of year</b>	380,585,851	284,015,733	380,585,851	284,015,733
Contributions to Provision	(89,237,506)	96,570,118	(89,237,506)	96,570,118
<b>Balance at end of year</b>	<b>291,348,345</b>	<b>380,585,851</b>	<b>291,348,345</b>	<b>380,585,851</b>

**Rehabilitation of Swartkops River**

<b>Balance at beginning of year</b>	81,617,595	45,756,198	81,617,595	45,756,198
Contributions to Provision - unwinding of discount factor	(4,453,721)	35,861,397	(4,453,721)	35,861,397
<b>Balance at end of year</b>	<b>77,163,874</b>	<b>81,617,595</b>	<b>77,163,874</b>	<b>81,617,595</b>

The provision is in relation to the Municipality's obligation to address the environmental pollution of the Swartkops River.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	Economic Entity		Municipality	
	2017	Restated 2016	2017	Restated 2016
	R	R	R	R
<b>5 EMPLOYEE BENEFITS AND PROVISIONS</b>				
<b>5.1 CURRENT EMPLOYEE BENEFIT OBLIGATION</b>				
Gratuity Liability	5,632,000	6,070,535	5,632,000	6,070,535
Post Retirement Benefits	65,614,068	50,411,574	65,614,068	50,411,574
Performance Bonus Liability	2,715,620	2,096,493	1,677,378	1,425,663
Long service awards and long service bonuses	88,957,224	19,343,094	88,957,224	19,343,094
Provision for Workmen's Compensation	25,676	41,800	0	0
<b>Total Current Employee Benefit Obligation</b>	<b>162,944,588</b>	<b>77,963,496</b>	<b>161,880,670</b>	<b>77,250,866</b>

Refer to Note 47 for the full reconciliation and disclosures.

**Gratuity Obligation**

This obligation is in respect of the short-term liability relating to gratuities payable to employees that were not previously members of a pension fund.

<b>Balance at beginning of year</b>	6,070,535	4,842,003	6,070,535	4,842,003
Contributions to Obligation	2,074,734	4,506,629	2,074,734	4,506,629
Expenditure incurred	(2,513,269)	(3,278,097)	(2,513,269)	(3,278,097)
<b>Balance at end of year</b>	<b>5,632,000</b>	<b>6,070,535</b>	<b>5,632,000</b>	<b>6,070,535</b>

**Post Retirement Benefits**

The obligation is in respect of the short-term liabilities attributable to ill-health retirements, medical aid contributions and ex-gratia pensions.

<b>Balance at beginning of year</b>	50,411,574	46,856,876	50,411,574	46,856,876
Contributions to Obligation	78,552,306	62,020,683	78,552,306	62,020,683
Expenditure incurred	(63,349,812)	(58,465,985)	(63,349,812)	(58,465,985)
<b>Balance at end of year</b>	<b>65,614,068</b>	<b>50,411,574</b>	<b>65,614,068</b>	<b>50,411,574</b>

**Performance bonus liability**

This obligation is in respect of the short-term liability relating to performance bonuses payable to Section 57 employees, based on a maximum of 14% of their all-inclusive remuneration package paid as per regulation 32(2) of the Local Government: Municipal Performance Regulations for Municipal Managers and Managers directly accountable to Municipal Managers, 2006. A portion of the Performance bonus also relates to the performance of MBDA.

<b>Balance at beginning of year</b>	2,096,493	3,715,238	1,425,663	3,117,531
Movement in Obligation	1,289,957	(1,021,038)	251,715	(1,691,868)
Expenditure incurred	(670,830)	(597,707)	0	0
<b>Balance at end of year</b>	<b>2,715,620</b>	<b>2,096,493</b>	<b>1,677,378</b>	<b>1,425,663</b>

**Long service awards and long service bonuses**

The obligation is in respect of long service awards and long service bonuses

<b>Balance at beginning of year</b>	19,343,094	17,430,577	19,343,094	17,430,577
Movement in Obligation	69,614,130	1,912,517	69,614,130	1,912,517
<b>Balance at end of year</b>	<b>88,957,224</b>	<b>19,343,094</b>	<b>88,957,224</b>	<b>19,343,094</b>

**Provision for Workmens Compensation**

<b>Balance at beginning of year</b>	41,800	32,480	0	0
Contributions to Obligation	25,676	41,801	0	0
Adjustment for underprovision	17,700	(10,440)	0	0
Expenditure incurred	(59,500)	(22,041)	0	0
<b>Balance at end of year</b>	<b>25,676</b>	<b>41,800</b>	<b>0</b>	<b>0</b>

**5.2 CURRENT PROVISIONS**

Provision for Litigation and Claims	92,188,982	47,776,422	92,188,982	47,776,422
<b>Total Current Provisions</b>	<b>92,188,982</b>	<b>47,776,422</b>	<b>92,188,982</b>	<b>47,776,422</b>

**Provision for Litigation and Claims**

The provision is in respect of probable claims against the NMBM, pending the outcome of court decisions - See note 45(b).

<b>Balance at the beginning of the year</b>	47,776,422	85,649,120	47,776,422	85,649,120
Contribution to the provision	44,412,560	9,408,821	44,412,560	9,408,821
Provision utilised	0	(47,281,519)	0	(47,281,519)
<b>Balance at end of year</b>	<b>92,188,982</b>	<b>47,776,422</b>	<b>92,188,982</b>	<b>47,776,422</b>

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

6 CONSUMER DEPOSITS	Economic Entity		Municipality	
	2017	Restated 2016	2017	Restated 2016
	R	R	R	R
Electricity and Water	129,871,554	122,595,098	129,871,554	122,595,098
Interest	1,468,802	1,364,092	1,468,802	1,364,092
	<u>131,340,356</u>	<u>123,959,190</u>	<u>131,340,356</u>	<u>123,959,190</u>
Guarantees held in lieu of Electricity and Water Deposits.	15,465,278	15,465,278	15,465,278	15,465,278

Consumer deposits bear interest and are only refunded once the consumers' accounts are closed.

7 CREDITORS - EXCHANGE TRANSACTIONS

Trade creditors	1,222,811,384	1,249,753,853	1,209,390,567	1,243,630,919
Payments Received in Advance	102,933,973	67,941,056	102,933,973	67,896,939
Staff leave	213,594,447	192,449,199	212,863,654	191,979,823
Other Creditors	3,993,406	4,176,349	3,993,406	3,943,532
Retentions	207,075,256	186,817,508	207,075,256	186,817,508
Operating Leases	734,123	833,611	497,973	597,461
<b>Total Creditors</b>	<u>1,751,142,589</u>	<u>1,701,971,576</u>	<u>1,736,754,829</u>	<u>1,694,866,182</u>

Refer Restatement Note no. 40.2.2

**Financial liabilities:**

Trade creditors are non-interest bearing and are normally settled on 30-day terms, except for retention amounts of R207 075 256, which could be settled within the next 12 months.

No creditors are secured

8 UNSPENT CONDITIONAL GRANTS AND RECEIPTS

8.1 Conditional Grants from other spheres of Government

**Conditional Grants in terms of the Division of Revenue Act (DORA):**

Municipal Human Settlements Capacity Grant (See Note 22.5.2)	0	5,028,404	0	5,028,404
Public Transport Infrastructure Grant (See Note 22.7.1)	2,351,663	25,836,082	2,351,663	25,836,082
Public Transport Networks Operations Grant (See Note 22.7.2)	420,374	123,614,211	420,374	123,614,211
Neighbourhood Partnership Development Grant (See Note 22.15)	562,222	0	562,222	0
Infrastructure Skills Development Grant (See Note 22.17)	4,720,444	576,932	4,720,444	576,932
Integrated City Development Grant (See Note 22.20)	0	1,722,774	0	1,722,774

**Other Grants:**

PHB Subsidies (See Note 22.1)	1,874,752	8,069,417	1,874,752	8,069,417
Smart Grid initiative Grant (See Note 22.4)	711,836	711,836	711,836	711,836
Provincial Department of Human Settlements: Accreditation Grant (See Note 22.5.1)	1,973,952	8,140,757	1,973,952	8,140,757
EU Sector Policy Support Project (See Note 22.9)	1,865,383	8,896,191	1,865,383	8,896,191
Other Grants (See Note 22.11)	4,390,189	5,141,162	1,443,000	1,273,445
National Lotteries Grant (See Note 22.13)	1,660,389	1,750,037	1,660,389	1,660,389
CDC Walmer Intervention Funding Grant (See Note 22.14)	20,546,957	5,546,957	20,546,957	5,546,957
EPWP Incentive Grant (See Note 22.18)	290,648	0	290,648	0
Off-Grid Electrification Grant (See Note 22.22)	0	1,211,893	0	1,211,893
LGSETA Discretionary Learnership Funding (See Note 22.25)	4,957,859	3,454,479	4,957,859	3,454,479
Provincial Department Agency: Communication Grant (See Note 22.26)	872,782	872,782	872,782	872,782

**Total Unspent Conditional Grants and Receipts**

47,199,450      200,573,914

44,252,261      196,616,549

The unspent portion on grants represent cash.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

9 PROPERTY, PLANT AND EQUIPMENT

ECONOMIC ENTITY	R	R	R
	Cost	Accumulated Depreciation/ Impairment	Carrying Value
As at 30 June 2017			
Land & Buildings	2,011,459,158	242,034,654	1,769,424,504
Infrastructure Assets	15,485,484,894	5,306,127,209	10,179,357,685
Community Assets	3,385,600,252	825,930,383	2,559,669,869
Other Assets	1,341,919,262	747,645,413	594,273,849
	<b>22,224,463,566</b>	<b>7,121,737,659</b>	<b>15,102,725,907</b>

No assets were pledged as security.

A detailed register of Property, plant and equipment is maintained and is available for inspection.

Refer to Note 48 for reconciliation.

As at 30 June 2016

	Cost	Accumulated Depreciation/ Impairment	Carrying Value
Land & Buildings	1,941,379,952	212,156,167	1,729,223,785
Infrastructure Assets	14,289,229,291	4,908,030,572	9,381,198,719
Community Assets	3,295,524,297	721,296,702	2,574,227,595
Other Assets	1,351,900,715	701,844,657	650,056,058
	<b>20,878,034,255</b>	<b>6,543,328,098</b>	<b>14,334,706,157</b>

Refer Restatement Note no. 40.2.3

MUNICIPALITY	R	R	R
	Cost	Accumulated Depreciation/ Impairment	Carrying Value
As at 30 June 2017			
Land & Buildings	2,011,459,158	242,034,654	1,769,424,504
Infrastructure Assets	15,485,484,894	5,306,127,209	10,179,357,685
Community Assets	3,385,600,252	825,930,383	2,559,669,869
Other Assets	1,332,753,043	745,825,629	586,927,414
	<b>22,215,297,347</b>	<b>7,119,917,875</b>	<b>15,095,379,472</b>

No assets were pledged as security.

A detailed register of Property, plant and equipment is maintained and is available for inspection.

Refer to Note 48 for reconciliation.

As at 30 June 2016

	Cost	Accumulated Depreciation/ Impairment	Carrying Value
Land & Buildings	1,935,900,042	212,100,796	1,723,799,246
Infrastructure Assets	14,289,229,291	4,908,030,572	9,381,198,719
Community Assets	3,295,524,297	721,296,702	2,574,227,595
Other Assets	1,348,525,888	700,542,784	647,983,104
	<b>20,869,179,518</b>	<b>6,541,970,854</b>	<b>14,327,208,664</b>

Refer Restatement Note no. 40.2.3

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 10 HERITAGE ASSETS

ECONOMIC ENTITY		R	R	R
As at 30 June 2017		Cost	Accumulated Impairment	Carrying Value
Heritage Assets		224,222,631	0	224,222,631
		<b>224,222,631</b>	<b>0</b>	<b>224,222,631</b>

Refer to Note 49 for reconciliation.

As at 30 June 2016		Cost	Accumulated Impairment	Carrying Value
Heritage Assets		206,087,322	0	206,087,322
		<b>206,087,322</b>	<b>0</b>	<b>206,087,322</b>

Refer Restatement Note no. 40.2.8

MUNICIPALITY		Cost	Accumulated Impairment	Carrying Value
As at 30 June 2017		Cost	Accumulated Impairment	Carrying Value
Heritage Assets		223,972,131	0	223,972,131
		<b>223,972,131</b>	<b>0</b>	<b>223,972,131</b>

Refer to Note 49 for reconciliation.

As at 30 June 2016		Cost	Accumulated Impairment	Carrying Value
Heritage Assets		205,836,822	0	205,836,822
		<b>205,836,822</b>	<b>0</b>	<b>205,836,822</b>

Refer Restatement Note no. 40.2.8

## 11 INTANGIBLE ASSETS

ECONOMIC ENTITY		Cost	Accumulated Amortisation/ Impairment	Carrying Value
As at 30 June 2017		Cost	Accumulated Amortisation/ Impairment	Carrying Value
Computer Software		599,410,100	540,261,128	59,148,972
		<b>599,410,100</b>	<b>540,261,128</b>	<b>59,148,972</b>

No assets were pledged as security.

Refer to Note 50 for reconciliation.

As at 30 June 2016		Cost	Accumulated Amortisation/ Impairment	Carrying Value
Computer Software		576,977,822	522,797,451	54,180,371
		<b>576,977,822</b>	<b>522,797,451</b>	<b>54,180,371</b>

MUNICIPALITY

As at 30 June 2017		Cost	Accumulated Amortisation/ Impairment	Carrying Value
Computer Software		599,083,082	539,970,102	59,112,980
		<b>599,083,082</b>	<b>539,970,102</b>	<b>59,112,980</b>

No assets were pledged as security.

Refer to Note 50 for reconciliation.

As at 30 June 2016		Cost	Accumulated Amortisation/ Impairment	Carrying Value
Computer Software		576,650,804	522,559,011	54,091,793
		<b>576,650,804</b>	<b>522,559,011</b>	<b>54,091,793</b>

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 12 INVESTMENT PROPERTY

ECONOMIC ENTITY AND MUNICIPALITY  
As at 30 June 2017

	Cost	Accumulated Depreciation/ Impairment	Carrying Value
Land & Buildings	256,233,049	62,601,854	193,631,195
	<b>256,233,049</b>	<b>62,601,854</b>	<b>193,631,195</b>

No assets were pledged as security.

Refer to Note 51 for reconciliation.

## As at 30 June 2016

	Cost	Accumulated Depreciation/ Impairment	Carrying Value
Land & Buildings	253,810,809	56,530,544	197,280,265
	<b>253,810,809</b>	<b>56,530,544</b>	<b>197,280,265</b>

## Description of Investment Property:

	2016 R	Restated 2015 R
Nelson Mandela Bay Logistics Park	102,300,000	102,300,000
Kings Beach	30,400,000	30,400,000
Springs Resort	2,141,000	2,141,000
Telkom Park	45,200,000	45,200,000
Mc Arthur Bath	12,290,000	12,290,000
Willows Resort	246,430,000	246,430,000
Beachview Resort	6,250,000	6,250,000
Van Stadens Resort	5,250,000	5,250,000
St Georges Park Resort and Wells estate	117,500,000	117,500,000
Motherwell Depot	15,010,000	15,000,000
Africa Timbers in Korsten	1,990,000	1,990,000
Mercado centre	22,830,000	22,830,000
Fresh Produce Market	5,500,000	5,500,000
Incinerator and Gas works	26,730,000	26,730,000
Something Good	4,200,000	4,200,000
Korsten Depot	1,600,000	1,600,000
Port Elizabeth RD Steeledale Reinforcing	980,000	980,000
PE Central Shop	490,000	490,000
North End Workshop	66,000	66,000
Moselville Old Post Office	1,250,000	1,250,000
<b>Market Value of Investment Property</b>	<b>648,407,000</b>	<b>648,397,000</b>



NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

12 INVESTMENT PROPERTY (Continued)

**Additional Disclosure:**

The NMBM applies the Cost Model.

**The Market Value was determined by professional valuers of the NMBM who are experts in this field as at 30 June 2017 and almost all had no changes:**

The depreciated replacement cost method of valuation was applied in determining the valuation of the property. This method of valuation is usually applied to properties that do not often change hands in the open market. The depreciated replacement cost method of valuation is calculated by determining the replacement cost of the improvements, as at the date of the valuation, less a depreciation factor, which comprises physical deterioration, functional obsolescence and location deterioration. The value of land is determined by means of comparable sales of similar properties in the area. The two values are added together to arrive at the valuation of the property.

	Economic Entity		Municipality	
	2017	Restated 2016	2017	Restated 2016
	R	R	R	R
<b>Rental revenue included in surplus for following Investment Property:</b>				
Beachview resort	240,000	240,000	240,000	240,000
Van Stadens Resort	240,000	240,000	240,000	240,000
Direct Operating expenses that generated rental revenue	0	0	0	0

13 LONG-TERM RECEIVABLES

Sporting and Other Bodies	0	100	0	100
Other Debtors	50,315	50,315	50,315	50,315
Consumer Debtors	64,009,049	24,256,486	64,009,049	24,256,486
Rate and General	28,830,648	10,960,479	28,830,648	10,960,479
Electricity	9,605,056	4,271,747	9,605,056	4,271,747
Water	10,580,523	3,713,297	10,580,523	3,713,297
Refuse	5,955,096	2,070,677	5,955,096	2,070,677
Sewerage	8,595,355	3,030,091	8,595,355	3,030,091
Insurance	442,371	210,195	442,371	210,195
	<b>64,059,364</b>	<b>24,306,901</b>	<b>64,059,364</b>	<b>24,306,901</b>
<b>Less current portion:</b>				
Sporting and Other Bodies	20	80	20	80
<b>Current Portion of Long-term Receivables</b>	<b>20</b>	<b>80</b>	<b>20</b>	<b>80</b>
<b>Long-term Receivables</b>	<b>64,059,344</b>	<b>24,306,821</b>	<b>64,059,344</b>	<b>24,306,821</b>
Long-term Receivables - Exchange Transactions	35,228,696	13,346,342	35,228,696	13,346,342
Long-term Receivables - Non-exchange Transactions	28,830,648	10,960,479	28,830,648	10,960,479
	<b>64,059,344</b>	<b>24,306,821</b>	<b>64,059,344</b>	<b>24,306,821</b>

No collateral is held for receivables.

In the event of defaults on arrangements, the consumers may enter into a fresh arrangement upon making certain down payments.

**LONG-TERM RECEIVABLES - CONSUMER DEBTORS**

**Financial Assets - Receivables:**

Consumer Debtors have a fixed repayment term per individual consumer and interest is calculated on monthly basis at 9% per annum.

**CONSUMER DEBTORS**

The current portion is disclosed in note 15 - Consumer Debtors.

14 INVENTORY

	200,262,812	147,446,948	199,734,370	147,446,948
Raw Materials	48,167	80,507	48,167	80,507
Spare Parts	154,002,075	95,995,602	154,002,075	95,995,602
Work in Progress - RDP Land	18,380,117	21,355,200	18,380,117	21,355,200
Water Finished Goods - at cost (refer to note 28 for cost of inventory sold)	13,969,827	14,892,822	13,969,827	14,892,822
Consumable Goods	13,862,626	15,122,817	13,334,184	15,122,817
Less: Provision for Obsolete Stock	(1,867,083)	(2,073,323)	(1,867,083)	(2,073,323)
	<b>198,395,729</b>	<b>145,373,625</b>	<b>197,867,287</b>	<b>145,373,625</b>

No inventory was pledged as security

Refer Restatement Note no. 40.2.9

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 15 CONSUMER DEBTORS

## ECONOMIC ENTITY AND MUNICIPALITY

As at 30 June 2017

	R	R	R
	Gross Balances	Impairment Allowance	Carrying Amount
Service Debtors	3,431,471,637	(1,897,496,356)	1,533,975,281
Rates and General	949,576,613	(620,516,207)	329,060,406
Electricity	1,160,550,708	(454,517,876)	706,032,832
Water	751,755,685	(448,477,275)	303,278,410
Refuse	201,273,871	(142,825,766)	58,448,105
Sanitation	368,314,760	(231,159,232)	137,155,528

House Rentals	27,474,915	(17,379,732)	10,095,183
<b>Total</b>	<b>3,458,946,552</b>	<b>(1,914,876,088)</b>	<b>1,544,070,464</b>

**Consumer debtors are made up as follows:**

Consumer debtors - Non-exchange Transactions	329,060,406
Consumer debtors - Exchange Transactions	1,215,010,058
	<b>1,544,070,464</b>

No consumer debtors were pledged as security.

In the event of defaults services are disconnected until such time that the outstanding debt has been paid or an arrangement entered into.

## ECONOMIC ENTITY AND MUNICIPALITY

As at 30 June 2016

	Gross Balances	Impairment Allowance	Carrying Amount
Service Debtors	3,284,065,711	(2,020,941,866)	1,263,123,845
Rates and General	887,035,328	(657,492,538)	229,542,790
Electricity	1,018,118,126	(384,039,639)	634,078,487
Water	747,626,752	(514,097,711)	233,529,041
Refuse	264,336,221	(205,666,635)	58,669,586
Sanitation	366,949,284	(259,645,343)	107,303,941

House Rentals	24,033,130	(20,071,756)	3,961,374
<b>Total</b>	<b>3,308,098,841</b>	<b>(2,041,013,622)</b>	<b>1,267,085,219</b>

**Consumer debtors are made up as follows:**

Consumer debtors - Non-exchange Transactions	229,542,790
Consumer debtors - Exchange Transactions	1,037,542,429
	<b>1,267,085,219</b>

**Rates and General: Ageing**

	2017 R	Restated 2016 R
Current (0-30 days)	139,775,392	67,746,837
31 - 60 Days	14,977,797	17,774,527
61 - 90 Days	22,910,577	24,774,031
Over 90 Days	771,912,847	776,739,933
<b>Total</b>	<b>949,576,613</b>	<b>887,035,328</b>

**Electricity: Ageing**

Current (0-30 days)	553,567,125	530,525,948
31 - 60 Days	67,904,094	62,494,179
61 - 90 Days	52,353,580	44,350,814
Over 90 Days	486,725,909	380,747,185
<b>Total</b>	<b>1,160,550,708</b>	<b>1,018,118,126</b>

**Water: Ageing**

Current (0-30 days)	168,612,683	125,191,225
31 - 60 Days	56,987,156	68,588,762
61 - 90 Days	49,921,027	50,782,153
Over 90 Days	476,234,819	503,064,612
<b>Total</b>	<b>751,755,685</b>	<b>747,626,752</b>

**Refuse: Ageing**

Current (0-30 days)	26,681,835	25,009,805
31 - 60 Days	4,429,491	5,869,049
61 - 90 Days	8,236,393	10,541,626
Over 90 Days	161,926,152	222,915,741
<b>Total</b>	<b>201,273,871</b>	<b>264,336,221</b>

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

15 CONSUMER DEBTORS (Continued)	2017 R	Restated 2016 R
<b>Sanitation: Ageing</b>		
Current (0-30 days)	67,055,243	50,118,430
31 - 60 Days	25,083,172	22,883,172
61 - 90 Days	22,054,811	15,843,673
Over 90 Days	254,121,534	278,104,009
<b>Total</b>	<b>368,314,760</b>	<b>366,949,284</b>

**Housing Rentals: Ageing**

Current (0-30 days)	1,380,097	791,722
31 - 60 Days	145,948	127,099
61 - 90 Days	1,125,389	892,640
Over 90 Days	24,823,481	22,221,669
<b>Total</b>	<b>27,474,915</b>	<b>24,033,130</b>

**Summary of Debtors by Customer Classification**

	R	R	R
	<u>Residential Consumers</u>	<u>Industrial / Commercial</u>	<u>National and Provincial Government</u>
<b>30 June 2017</b>			
Current (0-30 days)	255,570,687	659,654,566	41,844,006
31 - 60 Days	91,239,497	69,872,063	8,416,099
61 - 90 Days	86,277,630	65,809,429	4,514,717
Over 90 Days	1,278,887,216	796,136,679	100,723,963
<b>Gross Consumer Debtors by Customer classification</b>	<b>1,711,975,030</b>	<b>1,591,472,737</b>	<b>155,498,785</b>
Gross Consumer Debtors			3,458,946,552
Less: Impairment allowance			(1,914,876,088)
<b>Net Consumer Debtors for the period ended 30 June 2017</b>			<b>1,544,070,464</b>

**Summary of Debtors by Customer Classification**

	R	R	R
	<u>Residential Consumers</u>	<u>Industrial / Commercial</u>	<u>National and Provincial Government</u>
<b>30 June 2016</b>			
Current (0-30 days)	150,189,574	618,634,166	30,557,113
31 - 60 Days	79,496,908	64,640,196	33,599,683
61 - 90 Days	66,765,511	55,773,713	24,645,712
Over 90 Days	1,450,584,025	713,854,418	19,357,822
<b>Gross Consumer Debtors by Customer classification</b>	<b>1,747,036,018</b>	<b>1,452,902,493</b>	<b>108,160,330</b>
Gross Consumer Debtors			3,308,098,841
Less: Impairment allowance			(2,041,013,622)
<b>Net Consumer Debtors for the year ended 30 June 2016</b>			<b>1,267,085,219</b>

	Economic Entity		Municipality	
	2017 R	Restated 2016 R	2017 R	Restated 2016 R
<b>Reconciliation of the Impairment Allowance</b>				
Balance at beginning of year	2,041,013,622	1,798,372,816	2,041,013,622	1,798,372,816
Contributions to Impairment allowance	473,582,525	655,956,758	473,582,525	655,956,758
	2,514,596,147	2,454,329,574	2,514,596,147	2,454,329,574
Bad debts written off against the Impairment allowance	(599,720,059)	(413,315,952)	(599,720,059)	(413,315,952)
<b>Balance at end of year</b>	<b>1,914,876,088</b>	<b>2,041,013,622</b>	<b>1,914,876,088</b>	<b>2,041,013,622</b>

Financial Assets have been classified as loans and receivables.

The consumer debtors are billed interest at 9% per annum on overdue accounts.

**Consumer Debtors not past due nor impaired therefore no impairment allowance raised:**

**Neither past due nor impaired**

Current (0-30 days)	1,544,070,464	1,267,085,219	1,544,070,464	1,267,085,219
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**Consumer Debtors for which an impairment allowance was raised**

Provision (based on the collection of outstanding debts and debtors handed over to attorneys)	1,914,876,088	2,041,013,622	1,914,876,088	2,041,013,622
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NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

16 OTHER DEBTORS - Exchange Transactions	Economic Entity		Municipality	
	2017 R	Restated 2016 R	2017 R	Restated 2016 R
Government Grants and Subsidies - Housing	220,061,067	236,426,725	220,061,067	236,426,725
Government Grants and Subsidies - Public Health	15,911,414	14,333,532	15,911,414	14,333,532
Government Grants and Subsidies - Coega	58,400,987	0	58,400,987	0
Government Grants and Subsidies - Smart Grid Initiative	0	2,250,000	0	2,250,000
Interest on External Investments	13,917,733	15,431,734	13,917,733	15,207,338
Operating lease accruals	1,929,816	2,143,428	1,929,816	2,143,428
Sundry Debtors	169,505,561	250,227,888	140,222,761	223,413,239
Entity - MBDA	0	0	66,940,346	49,265,159
	<b>479,726,578</b>	<b>520,813,307</b>	<b>517,384,124</b>	<b>543,039,421</b>
Provision for Bad Debts - Uitesco	(81,168,190)	(81,356,598)	(81,168,190)	(81,168,190)
	<b>398,558,388</b>	<b>439,456,709</b>	<b>436,215,934</b>	<b>461,871,231</b>

Refer Restatement Note no. 40.2.5

Amounts due from Government and external debtors are normally settled within 30 days and bear no interest.

Included in Sundry Debtors above are debit balances in creditors which are still under investigation to determine whether they should have been there or not and are being cleared and updated where necessary.

The liquidation for Uitesco has been approved during this year.

17 VAT Refund / VAT (Payable)/ Receivable

VAT Refund	<b>25,932,771</b>	<b>13,217,292</b>	<b>25,932,771</b>	<b>10,742,805</b>
VAT (Payable)/ Receivable	<b>(60,875,788)</b>	<b>(12,024,464)</b>	<b>(60,148,639)</b>	<b>(12,024,464)</b>

VAT is payable on the receipts basis. Only once payment is received from debtors is VAT paid over to SARS.

The VAT Receivable account is used to record VAT on revenue and expenses incurred but for which no payment has been received or made.

Refer Restatement Note no. 40.2.6 and 40.2.7

18 SHORT-TERM INVESTMENTS & INVESTMENT DEPOSITS

DEPOSITS

ABSA Investment Account - interest receivable on monthly basis at the average annual interest rate of 2017: 7.21% (2016: 7.20%) during the current audit period.

ECONOMIC ENTITY AND MUNICIPALITY

First National Bank Investment Account - interest receivable on monthly basis at the average annual interest rate of 2017: 7.15% (2016: 7.12%) during the current audit period.

305,000,000 310,000,000

Investec Bank Investment Account - interest receivable on monthly basis at the average annual interest rate of 2017: 6.75% (2016: 6.75 %) during the current audit period.

123,463,075 115,426,205

Nedbank Investment Account - interest receivable on monthly basis at the average annual interest rate of 2017: 6.60% and 7.34% (2016: 6.60% and 7.31%) during the current audit period.

303,500,000 315,500,000

Standard Bank Investment Account - interest receivable on monthly basis at the average annual interest rate of 2017: 7.48% (2016: 7.37%) during the current audit period.

307,500,000 314,152,000

Standard Bank Stanlib Investment Account - interest receivable on monthly basis at the average annual interest rate of 2017: 7.793% (2016: 7.65%) during the current audit period.

259,656 259,656

**1,344,722,731 1,365,337,861**

Refer Restatement Note no. 40.2.1

FINANCIAL INSTRUMENTS - INVESTMENTS

Sanlam Shares

2,651,551 2,469,871

**2,651,551 2,469,871**

No Investments were pledged as security.

The Investments are committed as follows:

**1,344,722,731 1,365,337,861**

Unspent Conditional Grants and Receipts

44,252,261 196,616,549

Current Portion of Long-term Liabilities

86,409,283 93,919,738

COVID Reserve

33,033,807 28,557,560

Self Insurance Reserve

121,256,887 102,980,606

Capital Replacement Reserve

76,794,226 0

Housing Revolving Fund

109,731,779 109,731,779

**471,478,243 531,806,232**

The balance is available for Creditors - Exchange Transactions

873,244,488 833,531,629

The Municipality's Investment Policy and Investment Regulations, require local authorities to invest funds, which are not immediately required, with prescribed institutions and the period should be such that it will not be necessary to borrow funds against the investment at a penalty rate of interest to meet commitments.

The NMBM is the holder of 40 919 shares in Sanlam Ltd received or allotted for no cost, of which the market value was R2 651 551 (2016: R2 469 871) determined on the open market share price as at 30 June 2017. The shares were awarded to the NMBM as the beneficiary of an insurance endowment policy, which matured during October 1998.

All deposits are invested in call accounts with all of the above banks as per the above-mentioned interest rate options. Short-term investment deposits form part of cash and cash equivalents for purposes of the cash flow statement.

Short-term Investment Deposits amounting to R93 919 738 (2015: R104 092 767) are ring-fenced and attributable to repaying long-term loans.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

19 BANK BALANCES AND CASH	Economic Entity		Municipality	
	2017 R	Restated 2016 R	2017 R	Restated 2016 R
The NMBM operates various current accounts with ABSA. The details are as follows:				
<b>BANK: ABSA</b>				
<b>ACCOUNT NUMBER: 4079534961</b>				
<b>BRANCH: Greenacres</b>				
<b>BRANCH CODE: 632005</b>				
Cash Book balance at beginning of the year	213,067,170	139,687,805	213,067,170	139,687,805
Cash Book balance at end of the year	<u>226,774,020</u>	<u>213,067,170</u>	<u>226,774,020</u>	<u>213,067,170</u>
Bank Balance at beginning of the year	200,857,162	114,066,794	200,857,162	114,066,794
Bank Balance at end of the year	<u>193,346,792</u>	<u>200,857,162</u>	<u>193,346,792</u>	<u>200,857,162</u>
Which are disclosed in the Statement of Financial Position as follows:				
Bank balances and cash	<u>226,774,020</u>	<u>213,067,170</u>	<u>226,774,020</u>	<u>213,067,170</u>
<b>In terms of GRAP 23 - Revenue from non-exchange transactions, the following Cash and Cash equivalents relates to restrictive agreements for which no commitment exist but can only be used for the following:</b>				
Transportation levies received: Upkeep of roads or any roads related projects.	3,107,409	31,997,669	3,107,409	31,997,669
<b>Refer Restatement Note no. 40.2.4</b>				
<b>Mandela Bay Development Agency</b>				
<b>Current Accounts (Primary Account)</b>				
<b>NedBank, Govan Mbeki Avenue, Port Elizabeth</b>				
<b>Account Number -</b>				
Cashbook balance at beginning of year	4,568,254	435,692		
Cashbook balance at end of the year	<u>7,587,201</u>	<u>4,568,254</u>		
Bank statement balance at beginning of the year	4,568,254	435,692		
Bank statement balance at end of the year	<u>7,587,201</u>	<u>4,568,254</u>		
<b>First National Bank, Govan Mbeki Avenue, Port Elizabeth</b>				
<b>Account Number - 62244870748</b>				
Cashbook balance at beginning of year	0	83,628		
Cashbook balance at end of the year	<u>0</u>	<u>0</u>		
Bank statement balance at beginning of the year	0	83,628		
Bank statement balance at end of the year	<u>0</u>	<u>0</u>		
<b>Call Account Deposits</b>				
<b>NedBank, Govan Mbeki Avenue, Port Elizabeth</b>				
<b>Account Number -</b>				
Cashbook balance at beginning of year	320,801	24,142,826		
Cashbook balance at end of the year	<u>46,756,535</u>	<u>320,801</u>		
Bank statement balance at beginning of the year	320,801	24,142,826		
Bank statement balance at end of the year	<u>46,756,535</u>	<u>320,801</u>		
<b>Rand Merchant Bank, Port Elizabeth</b>				
<b>Account Number - X021906134</b>				
Cashbook balance at beginning of year	29,211,400	28,994,607		
Cashbook balance at end of the year	<u>4,533,256</u>	<u>29,211,400</u>		
Bank statement balance at beginning of the year	29,211,400	28,994,607		
Bank statement balance at end of the year	<u>4,533,256</u>	<u>29,211,400</u>		
<b>Which are disclosed in the Statement of Financial Position as follows:</b>				
Cash and cash equivalents	<b>58,876,992</b>	<b>34,100,454</b>		
Current Account (Primary Account)	7,587,201	4,568,254		
Call Account Deposits	51,289,791	29,532,200		
<b>Consolidated Cash Book balance at end of the year</b>	<u><b>285,651,012</b></u>	<u><b>247,167,624</b></u>		

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

20 PROPERTY RATES	Economic Entity		Municipality	
	2017 R	Restated 2016 R	2017 R	Restated 2016 R
<i>Actual</i>				
Residential	761,155,611	694,417,955	761,155,611	694,417,955
Commercial	513,107,482	620,625,088	513,107,482	620,625,088
State	120,694,621	121,231,052	120,694,621	121,231,052
Other	244,440,997	66,189,227	244,440,997	66,189,227
	<b>1,639,398,711</b>	<b>1,502,463,322</b>	<b>1,639,398,711</b>	<b>1,502,463,322</b>

As per the Municipal Property Rates Act, the date of valuation was 1 July 2012, with the implementation date being 1 July 2013.

The Municipality is in the process of a property valuation in line with the Municipal Property Rates Act and the results thereof will be implemented w.e.f 01 July 2017.

\*Other includes Agricultural, Public Service Infrastructure and Vacant Properties.  
These amounts are reflected excluding VAT.

Valuations	R'000	R'000	R'000	R'000
Residential	85,359,082	85,101,884	85,359,082	85,101,884
Commercial	31,060,395	38,177,437	31,060,395	38,177,437
State	5,701,930	5,707,338	5,701,930	5,707,338
Other	14,498,993	6,506,342	14,498,993	6,506,342
	<b>136,620,400</b>	<b>135,493,001</b>	<b>136,620,400</b>	<b>135,493,001</b>

21.1 SERVICE CHARGES

Sale of Electricity	3,568,981,784	3,466,987,652	3,569,229,388	3,467,071,567
Sale of Water	761,650,123	660,223,228	761,650,123	660,223,228
Service delivery - sale of inventory	<b>4,330,631,907</b>	<b>4,127,210,880</b>	<b>4,330,879,511</b>	<b>4,127,294,795</b>
Refuse Removal	127,049,580	144,592,019	127,049,580	144,592,019
Sewerage and Sanitation charges	424,335,012	377,421,012	424,335,012	377,421,012
Service delivery - sale of services	<b>551,384,592</b>	<b>522,013,031</b>	<b>551,384,592</b>	<b>522,013,031</b>
	<b>4,882,016,499</b>	<b>4,649,223,911</b>	<b>4,882,264,103</b>	<b>4,649,307,826</b>

Refer Restatement Note no. 40.1.5

21.2 FINES

Fines (Library and Traffic)	<b>202,307,270</b>	<b>224,461,137</b>	<b>202,307,270</b>	<b>224,461,137</b>
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Included in Fines above are Traffic fines shown as follows:

Fines issued for the year	200,697,759	243,281,414	200,697,759	243,281,414
Impaired, based on collection rate	(165,679,512)	(154,403,489)	(165,679,512)	(154,403,489)
Net fines collected	<b>35,018,247</b>	<b>88,877,925</b>	<b>35,018,247</b>	<b>88,877,925</b>

Refer Restatement Note no. 40.1.15

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

22	GOVERNMENT GRANTS AND SUBSIDIES	Economic Entity		Municipality	
		2017	Restated 2016	2017	Restated 2016
		R	R	R	R
	PHB Subsidies (See Note 22.1)	58,507,300	222,854,482	58,507,300	222,854,482
	Equitable Share Allocation ( See Note 22.2)	798,043,000	774,616,583	798,043,000	774,616,583
	Finance Management Grant (See Note 22.3)	1,030,929	1,034,464	1,030,929	1,034,464
	Provincial Department of Human Settlements: Accreditation Grant (See Note 22.5.1)	6,166,805	5,833,027	6,166,805	5,833,027
	Municipal Human Settlements Capacity Grant (See Note 22.5.2)	0	27,574,061	0	27,574,061
	Provincial Government Grants: Library Services (See Note 22.6)	15,000,000	9,752,000	15,000,000	9,752,000
	Public Transport Networks Operations Grant (See Note 22.7.2)	22,413,940	22,343,382	22,413,940	22,343,382
	EU Sector Policy Support Project (See Note 22.9)	1,860,539	1,469,983	1,860,539	1,469,983
	Health Subsidies (See Note 22.10)	1,577,882	3,333,875	1,577,882	3,333,875
	Other Grants (See Note 22.11)	318,423	433,263	318,423	433,263
	Government Grant Revenue (See Note 22.12)	855,067,451	777,512,325	855,067,451	777,512,325
	National Lotteries Grant (See Note 22.13)	0	3,033,148	0	3,033,148
	CDC Coega Grant (See Note 22.14.2)	50,451,940	0	50,451,940	0
	Urban Settlements Development Grant (See Note 22.16)	17,000,000	22,924,967	17,000,000	22,924,967
	Infrastructure Skills Development Grant (See Note 22.17)	9,469,742	8,594,209	9,469,742	8,594,209
	EPWP Incentive Grant (See Note 22.18)	8,205,352	8,361,831	8,205,352	8,361,831
	Groen Sebenza (SANBI) Grant (See Note 22.19)	0	37,533	0	37,533
	Integrated City Development Grant (See Note 22.20)	0	3,576,573	0	3,576,573
	VUNA Awards (See Note 22.21)	0	15,294	0	15,294
	Off-Grid Electrification Grant (See Note 22.22)	1,211,893	20,788,107	1,211,893	20,788,107
	Department of Roads and Public Works Grant (See Note 22.23)	7,881,772	0	7,881,772	0
	LGSETA Discretionary Learnership Funding (See Note 22.24)	5,434,704	9,985,035	5,434,704	9,985,035
	Provincial Department Agency: Communication Grant (See Note 22.25)	0	2,378,019	0	2,378,019
		<b>1,859,641,672</b>	<b>1,926,452,161</b>	<b>1,859,641,672</b>	<b>1,926,452,161</b>

Refer Restatement Note no. 40.1.10

**Government Grants and Subsidies are made up as follows:**

Government Grants and Subsidies - Operating	954,122,281	1,148,939,836	954,122,281	1,148,939,836
Government Grants and Subsidies - Capital	905,519,391	777,512,325	905,519,391	777,512,325
	<b>1,859,641,672</b>	<b>1,926,452,161</b>	<b>1,859,641,672</b>	<b>1,926,452,161</b>

**22.1 PHB Subsidies**

This Grant is received from Provincial Government and is used for the construction of low cost housing.

<b>Balance at beginning of year</b>	<b>8,069,417</b>	<b>9,752,718</b>	<b>8,069,417</b>	<b>9,752,718</b>
Current year receipts	68,623,413	220,761,020	68,623,413	220,761,020
Interest received	408,070	663,376	408,070	663,376
Debtor raised	218,035,411	236,426,726	218,035,411	236,426,726
Reversal of prior year accrual	(234,346,189)	(236,016,565)	(234,346,189)	(236,016,565)
Interest paid over to Provincial Treasury	(408,070)	(663,376)	(408,070)	(663,376)
Conditions met - Transferred to revenue	(58,507,300)	(222,854,482)	(58,507,300)	(222,854,482)
<b>Conditions still to be met - transferred to liabilities</b>	<b>1,874,752</b>	<b>8,069,417</b>	<b>1,874,752</b>	<b>8,069,417</b>

**22.2 Equitable Share**

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

<b>Balance unspent at beginning of year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Current year receipts	798,043,000	774,616,583	798,043,000	774,616,583
Transferred to revenue	(798,043,000)	(774,616,583)	(798,043,000)	(774,616,583)
<b>Conditions met</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**22.3 Finance Management Grant**

This grant is used in the financial reform project under the guidance of National Treasury.

<b>Balance unspent at beginning of year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Current year receipts	1,050,000	1,050,000	1,050,000	1,050,000
Conditions met - Transferred to Other Income - VAT portion	(19,071)	(15,536)	(19,071)	(15,536)
Conditions met - Transferred to revenue	(1,030,929)	(1,034,464)	(1,030,929)	(1,034,464)
<b>Conditions met</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**22.4 Smart Grid Initiative**

This Grant is used to develop innovative, interactive and improved technological solutions to deal with revenue enhancement.

<b>Balance unspent at beginning of year</b>	<b>711,836</b>	<b>1,809,900</b>	<b>711,836</b>	<b>1,809,900</b>
Current year receipts	2,250,000	10,500,000	2,250,000	10,500,000
Conditions met - Transferred to revenue - capital	0	(13,848,064)	0	(13,848,064)
Debtor raised	(2,250,000)	2,250,000	(2,250,000)	2,250,000
<b>Conditions still to be met - transferred to liabilities</b>	<b>711,836</b>	<b>711,836</b>	<b>711,836</b>	<b>711,836</b>

**22.5.1 Provincial Department of Human Settlements: Accreditation Grant**

This Grant is used for capacity building of level 3 accreditation in the preparation of NMBM in the Human Settlements matters.

<b>Balance unspent at beginning of year</b>	<b>8,140,757</b>	<b>13,973,784</b>	<b>8,140,757</b>	<b>13,973,784</b>
Current year receipts	0	0	0	0
Conditions met - Transferred to revenue	(6,166,805)	(5,833,027)	(6,166,805)	(5,833,027)
<b>Conditions still to be met - transferred to liabilities</b>	<b>1,973,952</b>	<b>8,140,757</b>	<b>1,973,952</b>	<b>8,140,757</b>

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

22 GOVERNMENT GRANTS AND SUBSIDIES (Continued)	Economic Entity		Municipality	
	2017 R	Restated 2016 R	2017 R	Restated 2016 R
<b>22.5.2 Municipal Human Settlements Capacity Grant</b>				
This Grant is used to ensure effective management of Human Settlements programmes at the local government level in line with the Accreditation framework.				
<b>Balance unspent at beginning of year</b>	<b>5,028,404</b>	<b>23,235,275</b>	<b>5,028,404</b>	<b>23,235,275</b>
Transfer to E-Share - Owing to NT	(5,028,404)	0	(5,028,404)	0
	0	23,235,275	0	23,235,275
Current year receipts	0	9,847,000	0	9,847,000
Conditions met - Transferred to revenue	0	(27,574,061)	0	(27,574,061)
Conditions met - Transferred to Other Income - VAT portion	0	(479,810)	0	(479,810)
<b>Conditions met</b>	<b>0</b>	<b>5,028,404</b>	<b>0</b>	<b>5,028,404</b>
<b>22.6 Provincial Government Grants: Library Services</b>				
This grant is received from the Provincial Government and used to subsidise Libraries.				
<b>Balance at beginning of year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Current year receipts	15,000,000	9,752,000	15,000,000	9,752,000
Conditions met - Transferred to revenue	(15,000,000)	(9,752,000)	(15,000,000)	(9,752,000)
<b>Conditions met</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>22.7.1 Public Transport Infrastructure Grant</b>				
This Grant is to provide for accelerated planning, construction and improvement of public and non-motorised transport infrastructure.				
<b>Balance unspent at beginning of year</b>	<b>25,836,082</b>	<b>61,482,240</b>	<b>25,836,082</b>	<b>61,482,240</b>
Transfer from Public Transport Networks Operations Grant	40,669,532	0	40,669,532	0
	<b>66,505,614</b>	<b>61,482,240</b>	<b>66,505,614</b>	<b>61,482,240</b>
Current year receipts	0	36,128,000	0	36,128,000
Conditions met - Transferred to revenue - capital	(56,275,397)	(9,027,998)	(56,275,397)	(9,027,998)
Conditions met - Transferred to Other Income - VAT portion	(7,878,554)	(1,263,920)	(7,878,554)	(1,263,920)
Transfer to E-Share	0	(61,482,240)	0	(61,482,240)
<b>Conditions still to be met - transferred to liabilities</b>	<b>2,351,663</b>	<b>25,836,082</b>	<b>2,351,663</b>	<b>25,836,082</b>
<b>22.7.2 Public Transport Networks Operations Grant</b>				
This grant is to provide supplementary operational funding to Municipalities in order to operationalise the IPTS project within NMBM.				
<b>Balance unspent at beginning of year</b>	<b>123,614,211</b>	<b>0</b>	<b>123,614,211</b>	<b>0</b>
Transfer to Public Transport Infrastructure Grant	(40,669,532)	0	(40,669,532)	0
Transfer to E-Share - Owing to NT	(56,387,144)	0	(56,387,144)	0
	<b>26,557,535</b>	<b>0</b>	<b>26,557,535</b>	<b>0</b>
Current year receipts	0	150,000,000	0	150,000,000
Conditions met - Transferred to Other Income - VAT portion	(3,723,221)	(4,042,407)	(3,723,221)	(4,042,407)
Conditions met - Transferred to revenue	(22,413,940)	(22,343,382)	(22,413,940)	(22,343,382)
<b>Conditions still to be met - transferred to liabilities</b>	<b>420,374</b>	<b>123,614,211</b>	<b>420,374</b>	<b>123,614,211</b>
<b>22.8 Integrated National Electrification Programme Grant</b>				
This Grant is used to fund electricity connections and upon application also the upgrade of the Electricity infrastructure in order to install these electricity connections.				
<b>Balance unspent at beginning of year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Current year receipts	35,000,000	35,500,000	35,000,000	35,500,000
Conditions met - Transferred to revenue - capital	(30,701,760)	(31,140,350)	(30,701,760)	(31,140,350)
Conditions met - Transferred to Other Income - VAT portion	(4,298,240)	(4,359,650)	(4,298,240)	(4,359,650)
<b>Conditions met</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>22.9 EU Sector Policy Support Project</b>				
This Grant is received from the European Union to fund various authorised developmental projects within certain designated targeted areas of the NMBM (i.e Motherwell).				
<b>Balance unspent at beginning of year</b>	<b>8,896,191</b>	<b>10,366,174</b>	<b>8,896,191</b>	<b>10,366,174</b>
Current year receipts	0	0	0	0
Conditions met - Transferred to revenue	(1,860,539)	(1,469,983)	(1,860,539)	(1,469,983)
Conditions met - Transferred to revenue - capital	(5,170,270)	0	(5,170,270)	0
<b>Conditions still to be met - transferred to liabilities</b>	<b>1,865,382</b>	<b>8,896,191</b>	<b>1,865,382</b>	<b>8,896,191</b>
<b>22.10 Health Subsidies</b>				
This grant is received from the Provincial Government and used in the Health function.				
<b>Balance unspent at beginning of year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Conditions met - Transferred to revenue	(1,577,882)	(3,333,875)	(1,577,882)	(3,333,875)
Debtor raised	1,577,882	3,333,875	1,577,882	3,333,875
<b>Conditions met</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>



## NELSON MANDELA BAY METROPOLITAN MUNICIPALITY

## NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	Economic Entity		Municipality	
	2017 R	Restated 2016 R	2017 R	Restated 2016 R
<b>22.11 Other Grants</b>				
These are grants received by the NMBM for various purposes.				
<b>Balance unspent at beginning of year</b>	<b>5,141,162</b>	<b>17,087,514</b>	<b>1,273,445</b>	<b>17,087,514</b>
Current year receipts	10,569,640	4,416,911	487,978	549,194
Conditions met - Transferred to revenue - capital	(4,603,435)	0	0	0
Transfer to Other Income	(6,398,755)	(15,930,000)	0	(15,930,000)
Conditions met - Transferred to revenue	(318,423)	(433,263)	(318,423)	(433,263)
<b>Conditions still to be met - transferred to liabilities</b>	<b>4,390,189</b>	<b>5,141,162</b>	<b>1,443,000</b>	<b>1,273,445</b>
<b>22.12 Government Grant Revenue</b>				
Relates to the Funding of Capital Projects financed by Government Grants which are disclosed under Government Grants and Subsidies.				
	<b>855,067,451</b>	<b>777,512,325</b>	<b>855,067,451</b>	<b>777,512,325</b>
<b>22.13 National Lotteries Grant</b>				
This grant is used to fund Art and Culture programmes				
<b>Balance unspent at beginning of year</b>	<b>1,750,037</b>	<b>4,863,245</b>	<b>1,660,389</b>	<b>4,693,537</b>
Current year receipts	0	0	0	0
Conditions met - Transferred to revenue	0	(3,113,208)	0	(3,033,148)
<b>Conditions still to be met - transferred to liabilities</b>	<b>1,750,037</b>	<b>1,750,037</b>	<b>1,660,389</b>	<b>1,660,389</b>
<b>22.14 CDC Walmer Intervention Funding Grant</b>				
This grant is used to speed up service delivery intervention in Walmer Gqebera township.				
<b>Balance unspent at beginning of year</b>	<b>5,546,957</b>	<b>0</b>	<b>5,546,957</b>	<b>0</b>
Current year receipts	15,000,000	5,546,957	15,000,000	5,546,957
Debtor raised	0	0	0	0
Conditions met - Transferred to revenue	0	0	0	0
<b>Conditions still to be met - transferred to liabilities</b>	<b>20,546,957</b>	<b>5,546,957</b>	<b>20,546,957</b>	<b>5,546,957</b>
<b>22.14.2 CDC Coega Grant</b>				
This grant is used to speed up service delivery intervention in Walmer Gqebera township.				
<b>Balance unspent at beginning of year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Current year receipts	0	0	0	0
Debtor raised	50,451,940	0	50,451,940	0
Conditions met - Transferred to revenue - Capital	(50,451,940)	0	(50,451,940)	0
<b>Conditions met</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>22.15 Neighbourhood Partnership Development Grant</b>				
This grant is used for the urban renewal of certain targeted / designated townships.				
<b>Balance unspent at beginning of year</b>	<b>0</b>	<b>1,118,343</b>	<b>0</b>	<b>1,118,343</b>
Transfer to E-share	-	0	0	0
Current year receipts	10,390,000	0	10,390,000	0
Debtor raised	0	0	0	0
Conditions met - Transferred to revenue - capital	(8,620,858)	0	(8,620,858)	0
Conditions met - Transferred to Other Income - VAT	(1,206,920)	0	(1,206,920)	0
Transfer to E-Share	0	(1,118,343)	0	(1,118,343)
<b>Conditions still to be met - transferred to liabilities</b>	<b>562,222</b>	<b>0</b>	<b>562,222</b>	<b>0</b>
<b>22.16 Urban Settlements Development Grant</b>				
This grant is used to improve urban land production to the benefit of poor households as well as improving spatial integration and densities.				
<b>Balance unspent at beginning of year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Current year receipts	868,282,000	846,480,000	868,282,000	846,480,000
Conditions met - Transferred to revenue - capital	(744,650,877)	(720,672,961)	(744,650,877)	(720,672,961)
Conditions met - Transferred to Other Income - VAT portion	(106,631,123)	(102,882,072)	(106,631,123)	(102,882,072)
Conditions met - Transferred to revenue	(17,000,000)	(22,924,967)	(17,000,000)	(22,924,967)
<b>Conditions met</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>22.17 Infrastructure Skills Development Grant</b>				
This grant is used for skills development in certain targeted service delivery directorates.				
<b>Balance unspent at beginning of year</b>	<b>576,932</b>	<b>248,644</b>	<b>576,932</b>	<b>248,644</b>
Transfer to E-Share - Owing to NT	(576,932)	0	(576,932)	0
	<b>0</b>	<b>248,644</b>	<b>0</b>	<b>248,644</b>
Current year receipts	14,500,000	9,000,000	14,500,000	9,000,000
Conditions met - Transferred to revenue	(9,469,742)	(8,594,209)	(9,469,742)	(8,594,209)
Conditions met - Transferred to Other Income - VAT portion	(309,814)	(77,503)	(309,814)	(77,503)
<b>Conditions still to be met - transferred to liabilities</b>	<b>4,720,444</b>	<b>576,932</b>	<b>4,720,444</b>	<b>576,932</b>
<b>22.18 EPWP Incentive Grant</b>				
This grant is used to implement expanded public works programme.				
<b>Balance unspent at beginning of year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Current year receipts	8,496,000	8,664,000	8,496,000	8,664,000
Conditions met - Transferred to revenue	(8,205,351)	(8,361,831)	(8,205,351)	(8,361,831)
Conditions met - Transferred to Other Income - VAT portion	0	(302,169)	0	(302,169)
<b>Conditions met</b>	<b>290,649</b>	<b>0</b>	<b>290,649</b>	<b>0</b>
<b>22.19 Groen Sebenza (SANBI) Grant</b>				
This grant is used to provide training material and to cover operational expenditure of the SANBI staff.				
<b>Balance unspent at beginning of year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Current year receipts	0	215,875	0	215,875
Debtor raised	0	(140,804)	0	(140,804)
Additional debtor reversed	0	(37,538)	0	(37,538)
Conditions met - Transferred to revenue	0	(37,533)	0	(37,533)
<b>Conditions met</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

22 GOVERNMENT GRANTS AND SUBSIDIES (Continued)	Economic Entity		Municipality	
	2017 R	Restated 2016 R	2017 R	Restated 2016 R
<b>22.20 Intergrated City Development Grant</b>				
This grant is used for the development of more inclusive, liveable, productive and sustainable urban built environments in the metropolitan municipalities.				
<b>Balance unspent at beginning of year</b>	<b>1,722,774</b>	<b>0</b>	<b>1,722,774</b>	<b>0</b>
Current year receipts	9,276,000	5,708,000	9,276,000	5,708,000
Conditions met - Transferred to revenue	(9,648,290)	(3,576,573)	(9,648,290)	(3,576,573)
Conditions met - Transferred to Other Income - VAT portion	(1,350,484)	(408,653)	(1,350,484)	(408,653)
<b>Conditions still to be met - transferred to liabilities</b>	<b>0</b>	<b>1,722,774</b>	<b>0</b>	<b>1,722,774</b>
<b>22.21 VUNA Awards</b>				
This award is used for training within the Revenue Management Directorate and was won by NMBM from Provincial COGTA due to performance.				
<b>Balance unspent at beginning of year</b>	<b>0</b>	<b>15,294</b>	<b>0</b>	<b>15,294</b>
Current year receipts	0	0	0	0
Conditions met - Transferred to revenue - GRAP 23	0	(15,294)	0	(15,294)
<b>Conditions still to be met - transferred to liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>22.22 Off-Grid Electrification Grant</b>				
This grant is used to promote the socio-economic development of previously disadvantaged communities through household and institutional electrification and the electrification of associated community value-adding facilities.				
<b>Balance unspent at beginning of year</b>	<b>1,211,893</b>	<b>22,000,000</b>	<b>1,211,893</b>	<b>22,000,000</b>
Current year receipts	0	0	0	0
Conditions met - Transferred to revenue	(1,211,893)	(20,788,107)	(1,211,893)	(20,788,107)
<b>Conditions still to be met - transferred to liabilities</b>	<b>0</b>	<b>1,211,893</b>	<b>0</b>	<b>1,211,893</b>
<b>22.23 Department of Roads and Public Works Grant</b>				
This grant is used to fund the maintenance of Provincial roads in the Metropolitan area				
<b>Balance unspent at beginning of year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Current year receipts	7,999,999	0	7,999,999	0
Conditions met - Transferred to revenue	(7,881,772)	0	(7,881,772)	0
Conditions met - Transferred to Other Income	(118,227)	0	(118,227)	0
<b>Conditions met</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>22.24 LGSETA Discretionary Learnership Funding</b>				
This grant is used to facilitate access to skills development, education and training in the local government sector and community in general.				
<b>Balance unspent at beginning of year</b>	<b>3,454,479</b>	<b>5,525,289</b>	<b>3,454,479</b>	<b>5,525,289</b>
Current year receipts	6,938,084	7,914,225	6,938,084	7,914,225
Conditions met - Transferred to revenue	(5,434,704)	(9,985,035)	(5,434,704)	(9,985,035)
<b>Conditions still to be met - transferred to liabilities</b>	<b>4,957,859</b>	<b>3,454,479</b>	<b>4,957,859</b>	<b>3,454,479</b>
<b>22.25 Provincial Department Agency: Communication Grant</b>				
This grant is used for the roll out of public Wi-Fi to all Municipal Libraries, Customer Care centres and Traffic Licensing centres.				
<b>Balance unspent at beginning of year</b>	<b>872,782</b>	<b>0</b>	<b>872,782</b>	<b>0</b>
Current year receipts	0	6,073,752	0	6,073,752
Conditions met - Transferred to revenue	0	(2,378,019)	0	(2,378,019)
Conditions met - Transferred to revenue - capital	0	(2,822,951)	0	(2,822,951)
<b>Conditions still to be met - transferred to liabilities</b>	<b>872,782</b>	<b>872,782</b>	<b>872,782</b>	<b>872,782</b>

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	Economic Entity		Municipality	
	2017	Restated 2016	2017	Restated 2016
	R	R	R	R
<b>23 OTHER INCOME</b>				
Fees and Charges	173,995,270	129,861,044	173,995,270	129,861,044
Grave Income	9,578,250	9,639,907	9,578,250	9,639,907
Fees - Licences and Permits	9,563,389	9,170,188	9,563,389	9,170,188
Legal Costs Received	12,204,476	14,668,738	12,204,476	14,668,738
Other Income	62,627,987	146,798,505	62,627,987	146,798,505
	<b>267,969,372</b>	<b>310,138,382</b>	<b>267,969,372</b>	<b>310,138,382</b>
Government Grants - VAT recognised	137,541,826	113,831,721	137,541,826	113,831,721
Other Income - MBDA	1,829,483	506,269	0	0
Public Contributions and Donations Revenue	67,636,848	52,011,251	57,060,680	43,971,951
Fuel Levy	496,799,000	472,552,000	496,799,000	472,552,000
	<b>971,776,529</b>	<b>949,039,623</b>	<b>959,370,878</b>	<b>940,494,054</b>
<b>Refer Restatement Note no. 40.1.3</b>				
<b>24 EMPLOYEE RELATED COSTS</b>				
Employee related costs - Salaries and Wages	1,537,400,395	1,448,217,682	1,524,675,605	1,437,622,401
Employee related costs - Contributions for UIF, pensions and medical aids	490,327,236	538,541,381	490,327,236	538,541,381
Travel, motor car, accommodation, subsistence and other allowances	141,909,392	142,195,708	138,992,548	139,573,714
Housing benefits and allowances	11,121,776	10,879,786	11,121,776	10,879,786
Overtime payouts	174,156,220	134,053,923	174,156,220	134,053,923
Performance bonus	34,647,905	29,455,796	34,302,830	28,784,966
Long-service Awards (Also refer note 41)	671,100,213	40,402,799	671,100,213	40,387,669
	<b>3,060,663,137</b>	<b>2,343,747,075</b>	<b>3,044,676,428</b>	<b>2,329,843,840</b>
<b>Refer Restatement Note no. 40.1.11</b>				
<b>Remuneration of the City Manager</b>				
Annual Remuneration - 7 months	1,412,238	0	1,412,238	0
Travel, Subsistence, UIF, Medical, Pension Funds, Other	0	0	0	0
	<b>1,412,238</b>	<b>0</b>	<b>1,412,238</b>	<b>0</b>
The Current City Manager was being paid directly by COGTA at an hourly rate of R1 300 capped at 180 hours per month.				
<b>Remuneration of the former City Manager (Mr M Mbambisa)</b>				
Annual Remuneration	0	666,667	0	666,667
Labour Settlement	0	1,047,000	0	1,047,000
Travel, Subsistence, UIF, Medical, Pension Funds, Other	0	160,000	0	160,000
<b>Total</b>	<b>0</b>	<b>1,873,667</b>	<b>0</b>	<b>1,873,667</b>
<b>Remuneration of the Chief Financial Officer</b>				
Annual Remuneration	1,927,224	1,871,100	1,927,224	1,871,100
Travel, Subsistence, UIF, Medical, Pension Funds, Other	0	4,575	0	4,575
<b>Total</b>	<b>1,927,224</b>	<b>1,875,675</b>	<b>1,927,224</b>	<b>1,875,675</b>
<b>Remuneration of the Chief Operating Officer</b>				
Annual Remuneration	1,882,224	1,871,100	1,882,224	1,871,100
Travel, Subsistence, UIF, Medical, Pension Funds, Other	45,000	599	45,000	599
<b>Total</b>	<b>1,927,224</b>	<b>1,871,699</b>	<b>1,927,224</b>	<b>1,871,699</b>
<b>Remuneration of the Chief of Staff - Current</b>				
Annual Remuneration	596,180	0	596,180	0
Travel, Subsistence, UIF, Medical, Pension Funds, Other	0	0	0	0
<b>Total</b>	<b>596,180</b>	<b>0</b>	<b>596,180</b>	<b>0</b>
<b>Remuneration of the Chief of Staff - Previous</b>				
Annual Remuneration	221,686	1,330,117	221,686	1,330,117
Travel, Subsistence, UIF, Medical, Pension Funds, Other	34,583	0	34,583	0
<b>Total</b>	<b>256,269</b>	<b>1,330,117</b>	<b>256,269</b>	<b>1,330,117</b>
<b>Remuneration of the Chief of Police - Current</b>				
Annual Remuneration	815,080	0	815,080	0
Travel, Subsistence, UIF, Medical, Pension Funds, Other	70,000	0	70,000	0
<b>Total</b>	<b>885,080</b>	<b>0</b>	<b>885,080</b>	<b>0</b>
<b>Remuneration of the Chief of Police - Previous</b>				
Annual Remuneration	0	1,162,580	0	1,162,580
Travel, Subsistence, UIF, Medical, Pension Funds, Other	0	38,048	0	38,048
<b>Total</b>	<b>0</b>	<b>1,200,628</b>	<b>0</b>	<b>1,200,628</b>
<b>Remuneration of the Chief Executive Officer - MBDA</b>				
Annual Remuneration	946,246	1,635,727	0	0
Performance Bonuses	0	186,530	0	0
Gratuity Payment	1,374,500	0	0	0
Car allowance	35,000	60,000	0	0
<b>Total</b>	<b>2,355,746</b>	<b>1,882,257</b>	<b>0</b>	<b>0</b>
<b>Remuneration of the Chief Financial Officer - MBDA</b>				
Annual Remuneration	993,946	920,521	0	0
Performance Bonuses	101,795	122,667	0	0
Acting Allowance	234,010	0	0	0
Car allowance	24,000	24,000	0	0
<b>Total</b>	<b>1,353,751</b>	<b>1,067,188</b>	<b>0</b>	<b>0</b>

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
 NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

24 EMPLOYEE RELATED COSTS (Continued)	Economic Entity		Municipality	
	2017 R	Restated 2016 R	2017 R	Restated 2016 R
<b>Remuneration of the Planning and Development Manager (Inner City) - MBDA</b>				
Annual Remuneration	952,500	813,531	0	0
Performance Bonuses	97,651	108,742	0	0
Car allowance	24,000	24,000	0	0
<b>Total</b>	<b>1,074,151</b>	<b>946,273</b>	<b>0</b>	<b>0</b>
<b>Remuneration of the Operations Manager - MBDA</b>				
Annual Remuneration	624,639	615,948	0	0
Performance Bonuses	62,464	66,698	0	0
Long Service Bonus (5 years)	0	15,130	0	0
<b>Total</b>	<b>687,103</b>	<b>697,776</b>	<b>0</b>	<b>0</b>
<b>Remuneration of the Planning and Development Manager (Townships) - MBDA</b>				
Annual Remuneration	0	829,025	0	0
Performance Bonuses	0	93,581	0	0
<b>Total</b>	<b>0</b>	<b>922,606</b>	<b>0</b>	<b>0</b>
<b>Remuneration of the Planning and Development Manager (Townships) - MBDA</b>				
Annual Remuneration	461,007	0	0	0
Performance Bonuses	56,667	0	0	0
<b>Total</b>	<b>517,674</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Remuneration of the Marketing and Communications Manager - MBDA</b>				
Annual Remuneration	833,123	776,761	0	0
Performance Bonuses	83,166	92,612	0	0
<b>Total</b>	<b>916,289</b>	<b>869,373</b>	<b>0</b>	<b>0</b>
<b>Remuneration of Individual Executive Directors</b>				
<b>Corporate Services - Acting Executive Director - Current</b>				
Annual Remuneration	1,086,886	0	1,086,886	0
Travel, Subsistence, UIF, Medical, Pension Funds, Other	0	0	0	0
<b>Total</b>	<b>1,086,886</b>	<b>0</b>	<b>1,086,886</b>	<b>0</b>
<b>Corporate Services - Executive Director - former</b>				
Annual Remuneration	711,467	1,600,000	711,467	1,600,000
Travel, Subsistence, UIF, Medical, Pension Funds, Other	448,000	0	448,000	0
<b>Total</b>	<b>1,159,467</b>	<b>1,600,000</b>	<b>1,159,467</b>	<b>1,600,000</b>
<b>Economic Development, Tourism and Agriculture</b>				
Annual Remuneration	1,555,200	1,488,000	1,555,200	1,488,000
Travel, Subsistence, UIF, Medical, Pension Funds, Other	194,389	194,335	194,389	194,335
<b>Total</b>	<b>1,749,589</b>	<b>1,682,335</b>	<b>1,749,589</b>	<b>1,682,335</b>

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

24 EMPLOYEE RELATED COSTS (Continued)	Economic Entity		Municipality	
	2017 R	Restated 2016 R	2017 R	Restated 2016 R
<b>Infrastructure and Engineering</b>				
Annual Remuneration	1,747,200	1,680,000	1,747,200	1,680,000
Travel, Subsistence, UIF, Medical, Pension Funds, Other	0	0	0	0
	<b>1,747,200</b>	<b>1,680,000</b>	<b>1,747,200</b>	<b>1,680,000</b>
<b>Electricity</b>				
Annual Remuneration	0	970,667	0	970,667
Travel, Subsistence, UIF, Medical, Pension Funds, Other	0	215,695	0	215,695
	<b>0</b>	<b>1,186,362</b>	<b>0</b>	<b>1,186,362</b>
<b>Safety and Security</b>				
Annual Remuneration	1,927,224	920,103	1,927,224	920,103
Travel, Subsistence, UIF, Medical, Pension Funds, Other	0	57,457	0	57,457
	<b>1,927,224</b>	<b>977,560</b>	<b>1,927,224</b>	<b>977,560</b>
<b>Human Settlements - Current</b>				
Annual Remuneration	798,381	0	798,381	0
Travel, Subsistence, UIF, Medical, Pension Funds, Other	0	0	0	0
	<b>798,381</b>	<b>0</b>	<b>798,381</b>	<b>0</b>
<b>Human Settlements - Previous</b>				
Annual Remuneration	0	611,667	0	611,667
Labour settlement	0	600,000	0	600,000
Travel, Subsistence, UIF, Medical, Pension Funds, Other	0	158,907	0	158,907
	<b>0</b>	<b>1,370,574</b>	<b>0</b>	<b>1,370,574</b>
<b>Sports, Recreation, Arts and Culture</b>				
Annual Remuneration	1,567,200	1,500,000	1,567,200	1,500,000
Travel, Subsistence, UIF, Medical, Pension Funds, Other	183,112	180,000	183,112	180,000
	<b>1,750,312</b>	<b>1,680,000</b>	<b>1,750,312</b>	<b>1,680,000</b>
<b>Public Health</b>				
Annual Remuneration	970,662	933,333	970,662	933,333
Travel, Subsistence, UIF, Medical, Pension Funds, Other	0	153,937	0	153,937
	<b>970,662</b>	<b>1,087,270</b>	<b>970,662</b>	<b>1,087,270</b>
<b>25 REMUNERATION OF COUNCILLORS</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
Mayor's Remuneration	1,266,023	1,374,759	1,266,023	1,374,759
Deputy Mayor's Remuneration	1,010,779	1,003,393	1,010,779	1,003,393
Speaker's Remuneration	972,008	1,003,393	972,008	1,003,393
Mayoral Committee members	9,945,519	10,264,988	9,945,519	10,264,988
Other Councillors' Remuneration	48,193,657	45,946,718	48,193,657	45,946,718
Telephone Allowances	2,761,092	2,541,418	2,761,092	2,541,418
3G Allowance	134,810	61,175	134,810	61,175
	<b>64,283,888</b>	<b>62,195,844</b>	<b>64,283,888</b>	<b>62,195,844</b>

**In-kind Benefits**

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

The Executive Mayor has the use of a Council owned vehicle for official duties driven by a chauffeur employed by the Council.

In accordance with the Councillors' remuneration package; the structure is an all-inclusive package, with the exception of a Telephone Allowance and a 3G Allowance. The package is within the upper limits of the framework as envisaged in section 219 of the Constitution.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	Economic Entity		Municipality	
	2017	Restated 2016	2017	Restated 2016
	R	R	R	R
<b>26 IMPAIRMENT - RECEIVABLES</b>				
Bad debts consists of the following:				
<b>Bad debts expense</b>	<b>599,600,130</b>	<b>232,419,475</b>	<b>599,574,709</b>	<b>232,377,736</b>
ATTP and Miscellaneous fees and charges	599,720,059	227,831,987	599,720,059	227,831,987
Miscellaneous	(119,929)	4,587,488	(145,350)	4,545,749
<b>Net Contribution to doubtful debts</b>	<b>(161,754,871)</b>	<b>393,155,595</b>	<b>(161,754,871)</b>	<b>393,155,595</b>
Contribution to doubtful debts (inclusive of VAT)	473,582,525	655,956,758	473,582,525	655,956,758
Less: VAT portion	35,617,337	66,426,887	35,617,337	66,426,887
Contribution to doubtful debts (excluding VAT)	<b>437,965,188</b>	<b>589,529,871</b>	<b>437,965,188</b>	<b>589,529,871</b>
Less: Bad debts as above	599,720,059	196,374,276	599,720,059	196,374,276
	<b>(161,754,871)</b>	<b>393,155,595</b>	<b>(161,754,871)</b>	<b>393,155,595</b>
	<b>437,845,259</b>	<b>625,575,070</b>	<b>437,819,838</b>	<b>625,533,331</b>
<b>27 FINANCE COSTS</b>				
Interest on External Loans	153,812,307	165,124,168	153,812,307	165,124,168
Interest on Other	1,468,802	1,367,835	1,468,802	1,364,092
<b>Finance Cost</b>	<b>155,281,109</b>	<b>166,492,003</b>	<b>155,281,109</b>	<b>166,488,260</b>
Interest and Penalties	0	0	0	0
<b>Total Finance Cost</b>	<b>155,281,109</b>	<b>166,492,003</b>	<b>155,281,109</b>	<b>166,488,260</b>
Finance cost accrued / Prior year accrual reversals	(2,342,924)	(2,349,684)	(2,342,924)	(2,349,684)
<b>Finance cost paid</b>	<b>157,624,033</b>	<b>168,841,687</b>	<b>157,624,033</b>	<b>168,837,944</b>
<b>28 BULK PURCHASES</b>				
Electricity	2,913,232,138	2,721,669,919	2,913,232,138	2,721,669,919
Water	97,368,246	94,062,300	97,368,246	94,062,300
	<b>3,010,600,384</b>	<b>2,815,732,219</b>	<b>3,010,600,384</b>	<b>2,815,732,219</b>
Refer Restatement Note no. 40.1.12				
<b>29 GRANTS AND SUBSIDIES PAID</b>				
Grants in aid	6,452,130	14,123,340	6,452,130	14,123,340
Grants to Entities	(23,587,021)	(11,655,767)	38,781,826	35,355,589
Grants to Other Organisations	64,596,740	20,367,844	63,818,130	19,537,185
	<b>47,461,849</b>	<b>22,835,417</b>	<b>109,052,086</b>	<b>69,016,114</b>
Refer Restatement Note no. 40.1.9				
<b>30 SIGNIFICANT ITEMS IN THE STATEMENT OF FINANCIAL PERFORMANCE</b>				
<b>30.1 Contracted Services</b>				
Is made up as follows:				
Contract Security	120,949,663	105,259,696	120,949,663	105,259,696
Grass Cutting and environmental cleanup	28,666,712	25,298,751	28,666,712	25,298,751
Meter reading contracts	6,067,362	9,883,315	6,067,362	9,883,315
Stadium Management fee/ Operational Cost	19,856,766	97,933,340	19,856,766	97,933,340
Transport Operations	25,814,608	11,359,025	25,814,608	11,359,025
Edams system	0	6,660,357	0	6,660,357
Contractors - Other	35,143,326	28,855,974	35,143,326	28,855,974
Outsourced Services - Other	56,960,427	36,943,953	56,960,427	36,943,953
Litter Picking project	24,329,786	0	24,329,786	0
Project Management	127,791,432	27,002,441	127,791,432	27,002,441
Consultants and Other Professional services	109,766,901	80,351,084	109,766,901	80,351,084
Other minor contracts	94,663,519	52,226,764	94,663,519	52,226,764
	<b>650,010,502</b>	<b>481,774,700</b>	<b>650,010,502</b>	<b>481,774,700</b>
Refer Restatement Note no. 40.1.10				
<b>30.2 General Expenses</b>				
Is made up as follows:				
Communication - including Cellphone and Telephone	47,001,505	40,182,279	47,001,505	40,182,279
Fleet management services and Other Vehicle hire	46,339,412	96,816,934	46,339,412	96,816,934
Petrol, oil and lubricants	50,429,433	49,624,191	50,429,433	49,624,191
Consultants	0	5,231,244	0	5,231,244
Insurance	6,455,401	5,885,145	6,455,401	5,885,145
Building and Equipment rentals	29,227,550	24,594,889	29,227,550	24,594,889
External computer services	28,349,854	13,893,741	28,349,854	13,893,741
Subscriptions to Associations	0	12,985,359	0	12,985,359
Prepaid Vending Commission	16,220,653	16,329,731	16,220,653	16,329,731
Litter Picking project	0	22,181,346	0	22,181,346
Special Projects	14,562,124	16,483,346	14,562,124	16,483,346
RDP Housing - Top structures	59,823,224	213,074,005	59,823,224	213,074,005
Audit Fees - Auditor General	14,193,621	11,316,349	14,193,621	11,316,349
Operating levies funded projects	24,466,209	29,675,513	24,466,209	29,675,513
Electricity - Dams, treatment works and pump stations	0	21,860,567	0	21,860,567
Illegal Dumping Strategy	7,624,050	3,863,016	7,624,050	3,863,016
Chemicals	49,120,672	70,667,943	49,120,672	70,667,943
Municipal Services	35,803,453	0	35,803,453	0
Water Conservation	7,091,120	2,237,880	7,091,120	2,237,880
Other Sundry General Expenses	169,300,602	86,802,101	110,346,581	49,153,160
	<b>606,008,883</b>	<b>743,705,579</b>	<b>547,054,862</b>	<b>706,056,638</b>

The variances in the above are due to changes in categories as a result of mSCOA. Where it was practicable, comparatives have been changed.

Refer Restatement Note no. 40.1.2

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	Economic Entity		Municipality	
	2017 R	Restated 2016 R	2017 R	Restated 2016 R
<b>31 DEPRECIATION AND AMORTISATION</b>				
31.1 Depreciation - Property, Plant and Equipment	589,035,787	673,996,353	588,389,018	673,641,236
31.2 Depreciation - Investment Property	6,071,310	6,076,236	6,071,310	6,076,236
31.3 Amortisation	17,463,677	120,115,667	17,411,091	120,055,830
<b>Refer Restatement Note no. 40.1.13</b>				
<b>32 CASH GENERATED FROM OPERATIONS</b>				
<b>Surplus for the year</b>	<b>737,846,203</b>	<b>791,817,361</b>	<b>737,443,830</b>	<b>785,804,322</b>
Adjustment for:				
Interest accrued	(16,305,692)	(1,007,208)	(13,917,733)	1,761,906
Impairment of receivables	(126,112,113)	(224,306,940)	(126,137,534)	(224,348,679)
Write down to net realisable value	206,240	(607,120)	206,240	(607,120)
Property Rates adjustment	40,041,956	0	40,041,956	0
Dividend Accrued	0	(76,693)	0	(76,693)
Depreciation - Property, plant and equipment	589,035,787	673,996,353	588,389,018	673,641,236
Depreciation - Investment Property	6,071,310	6,076,236	6,071,310	6,076,236
Amortisation	17,463,677	120,115,667	17,411,091	120,055,830
Finance cost accrued	40,902,842	(2,349,684)	40,902,842	(2,349,684)
Contribution to provisions / employee benefit obligation - non-current	423,309,400	235,329,590	423,309,400	235,329,590
Contribution to provisions / employee benefit obligation - current	129,042,364	(32,672,970)	129,042,364	(32,868,819)
Unrealised gain to Sanlam shares	(181,681)	(244,696)	(181,681)	(244,696)
Loss on Disposal of Property Plant and Equipment	1,428,019	37,107	1,165,081	0
NMBM Stadium	2,179,790	0	0	0
Impairment of PPE / Heritage Assets/ Fines	165,679,512	59,541,751	165,679,512	59,541,751
<b>Operating Surplus before working capital changes</b>	<b>2,010,607,614</b>	<b>1,625,648,754</b>	<b>2,009,425,696</b>	<b>1,621,715,180</b>
(Increase) / Decrease in Inventory	(52,287,422)	(4,771,968)	(52,287,422)	(4,771,968)
Increase in Consumer Debtors	(403,122,779)	94,532,032	(403,122,779)	94,532,032
Increase in Other Debtors	40,674,342	14,355,037	25,655,297	33,732,534
Decrease / (Increase) in VAT	32,934,209	51,762,284	32,934,209	51,770,614
Decrease in Unspent conditional grants and receipts	(167,383,333)	27,308,754	(152,364,288)	25,307,837
(Decrease) / Increase in Creditors	73,368,679	89,074,659	49,147,338	90,223,143
(Increase) / Decrease in Long-term Receivables	(39,752,463)	(6,007,895)	(39,752,463)	(6,007,895)
Increase in Deferred Income	0	775,181	0	0
	<b>1,495,038,847</b>	<b>1,892,676,838</b>	<b>1,469,635,588</b>	<b>1,906,501,477</b>
<b>33 MOVEMENT IN LONG-TERM LOANS (EXTERNAL)</b>				
Loans raised	0	0	0	0
Loans repaid	(93,919,738)	(104,092,766)	(93,919,738)	(104,092,766)
	<b>(93,919,738)</b>	<b>(104,092,766)</b>	<b>(93,919,738)</b>	<b>(104,092,766)</b>
<b>34 CASH AND CASH EQUIVALENTS</b>				
Short-term Investment Deposits	1,344,722,731	1,365,337,861	1,344,722,731	1,365,337,861
Bank balances and cash	285,651,012	247,167,624	226,774,020	213,067,170
Total Cash and Cash Equivalents	<b>1,630,373,743</b>	<b>1,612,505,485</b>	<b>1,571,496,751</b>	<b>1,578,405,031</b>
<b>35 DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT</b>				
<b>35.1 Contributions to organised local government</b>				
Opening balance	0	0	0	0
Council subscriptions	11,717,000	11,210,000	11,717,000	11,210,000
Amount paid - current year	(11,717,000)	(11,210,000)	(11,717,000)	(11,210,000)
<b>Balance unpaid (included in creditors)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>35.2 Audit Fees</b>				
Opening balance	37,102	1,394,957	37,102	915,069
Current year audit fee	15,049,305	11,954,866	14,156,519	11,316,349
Amount paid - current year	(14,968,927)	(11,917,764)	(14,076,141)	(11,279,247)
Previous year audit fees adjustment	0	262,104	0	0
Amount paid - previous year	(37,102)	(1,657,061)	(37,102)	(915,069)
<b>Balance unpaid (included in creditors)</b>	<b>80,378</b>	<b>37,102</b>	<b>80,378</b>	<b>37,102</b>
<b>35.3 VAT</b>				
The Net effect of the VAT inputs and VAT output are shown in note 17. All VAT returns have been submitted by the due date throughout the year.				
<b>35.4 PAYE and UIF</b>				
Opening balance	0	191,085	0	0
Current year payroll deductions	370,875,356	319,729,518	367,472,290	317,287,717
Amount paid - current year	(370,875,356)	(319,729,518)	(337,454,682)	(317,287,717)
Amount paid - previous year	0	(191,085)	0	0
<b>Balance unpaid (included in creditors)</b>	<b>0</b>	<b>0</b>	<b>30,017,608</b>	<b>0</b>

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

35 DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT	Economic Entity		Municipality	
	2017 R	Restated 2016 R	2017 R	Restated 2016 R
<b>35.5 PENSION AND MEDICAL DEDUCTIONS</b>				
<b>Opening balance</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Current year payroll deductions and Council Contributions	624,470,883	556,928,817	624,470,883	556,928,817
Amount paid - current year	(624,470,883)	(556,928,817)	(624,470,883)	(556,928,817)
<b>Balance unpaid (included in creditors)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>35.6 SKILLS DEVELOPMENT LEVY</b>				
<b>Opening balance</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Current year payroll deductions	20,429,439	18,456,265	20,429,439	18,456,265
Amount paid - current year	(18,742,250)	(18,456,265)	(18,742,250)	(18,456,265)
Amount paid - previous year	0	0	0	0
<b>Balance unpaid (included in creditors)</b>	<b>1,687,189</b>	<b>0</b>	<b>1,687,189</b>	<b>0</b>
<b>OTHER ADDITIONAL DISCLOSURES:</b>				
<b>35.7 IMPAIRMENT - OTHER</b>				
Impairment - land and buildings and Other PPE (excluding moveable assets)	0	59,517,518	0	59,517,518
Impairment - Moveable assets	0	24,233	0	24,233
Impairment - Traffic Fines	165,679,512	154,403,489	165,679,512	154,403,489
Impairment - Housing Debtors	0	81,168,189	0	81,168,189
	<b>165,679,512</b>	<b>295,113,429</b>	<b>165,679,512</b>	<b>295,113,429</b>
The Impairment of Traffic Fines was based on the collection rate of fines. Refer Note 21.2 for more details.				
<b>35.8 LOSS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT</b>				
Loss on disposal of property, plant and equipment	<b>1,296,550</b>	<b>0</b>	<b>1,165,081</b>	<b>0</b>
Mostly relates to disposal of buildings.				
<b>35.9 GAIN ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT</b>				
Sale of motor vehicles	<b>605,938</b>	<b>27,900</b>	<b>605,938</b>	<b>27,900</b>
Relates to the disposal of motor vehicles which are past their useful lives.				
<b>35.10 WATER LOSSES</b>				
The NMBM suffered water losses of 35,912 megalitres (35.5%) amounting to R169,7 million (2016: 45,538 megalitres (41.4%) amounting to R170 million) during the year. The value of the water losses have been based on cost for both years. Various water demand management interventions are being implemented to curb water losses.				
<b>35.11 ELECTRICITY LOSSES</b>				
The NMBM suffered electricity losses of 13.60% amounting to total accumulative losses of R326.2 million (2016: 12.5% amounting to R291.1 million). Various electricity management interventions are being implemented to curb these losses.				
The Electricity losses as defined above are separated between technical (6%) and non-technical losses (7.6%). Technical losses are inherent losses in a distribution system as these includes copper losses, Iron losses and heat losses due to current flow. Non-Technical Losses can be attributed to theft that is illegal connections, meter tampering and non billed revenue due to faulty meters.				
It must be further noted that the prescribed norms for electricity losses is +/- 10%.				



NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 35 DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

R R

## 35.12 ADDITIONAL OTHER WATER AND ELECTRICITY LOSSES

Due to challenges with aging infrastructure (meters), as well as meter tempering for both electricity and water, estimated revenue amounting to R145 174 376 that should be billed could not be billed to consumers in the current year.

## 35.13 Provident Fund

Opening balance	0	104,484	0	0
Amount paid - current year	(1,471,428)	(1,397,089)	0	0
Expenditure	1,471,428	1,292,605	0	0
<b>Balance unpaid (included in creditors)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

The entity contributes to the Liberty Corporate Selection Group Life Scheme, a defined contribution plan which is required to be actuarially valued. The fund is governed under the Pension Fund Act, 1956 as amended.

The employer makes a monthly contribution of 15% of staff members' salary in respect of members belonging to the Provident Fund. A total of 25 members belong to the fund.

## 36 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

## 36.1 Councillors' arrear consumer accounts

Councillors had arrear accounts outstanding for more than 90 days as at:

	R	R
	<u>Arrangements</u>	<u>Outstanding more than 90 days</u>
<b>30 June 2017</b>		
Councillor BM Bhanga		10
Councillor ME Bobani	3,709	
Councillor KK Boqwana		11
Councillor V Dyele	33,861	
Councillor AD Isaacs		45
Councillor RC Kayser	3,457	10,154
Councillor AW Lungisa		1
Councillor VM Manyati	33,249	
Councillor PA Mfama		173,572
Councillor GG Miggels		25
Councillor M Mngcokoca	26,114	
Councillor L Mrara	11,081	
Councillor PS Ndoni	6,923	
Councillor NQ Pink		98
Councillor SS Plaatjies	20,394	
Councillor NE Sikweyiya	25,212	
Councillor PB Vani		63
Councillor MM Zinto		2,271
	<b>164,000</b>	<b>186,250</b>
<b>30 June 2016</b>		
Councillor S Baartman	-	8
Councillor NC Benya	-	9
Councillor XC Bisset	-	12
Councillor VG Dyantyi	-	6,175
Councillor TM Jacobs	1,658	-
Councillor ZW Jodwana	-	2,306
Councillor RC Kayser	-	9,339
Councillor XT Klaas	3,184	-
Councillor LN Mettavinio (nee Gxavu)	-	105
Councillor LC Mtwá	-	11
Councillor GM Ncamani	1,722	-
Councillor PS Ndoni	15,715	-
Councillor NJ Quluba	-	3,673
Councillor LM Stereile	-	4
	<b>22,279</b>	<b>21,642</b>

## 36.2 List of Entities and related transactions

## 1 Solely-controlled entities

The following entity is solely controlled by the NMBM and have received the following grants:

	Economic Entity		Municipality	
	2017	Restated 2016	2017	Restated 2016
	R	R	R	R
Mandela Bay Development Agency (excluding VAT)	0	0	74,047,323	76,727,098

Although a related party relationship does exist, the transactions were made in the ordinary course of business and as such the transactions do not constitute related party transactions as per the definition per IPSAS 20 on related parties. However these amounts have been included as the additional disclosure is required by the MFMA.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	Economic Entity		Municipality	
	2017 R	Restated 2016 R	2017 R	Restated 2016 R
<b>36 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (Continued)</b>				
<b>36.2 List of Entities and related transactions (Continued)</b>				
<b>2 Section 57 Employees (See note 24)</b>				
<b>3 Other Organisations</b>				
The Organisations have received the following grants / payments:				
1. Uitenhage Despatch Development Initiative	7,379,470	6,961,760	7,379,470	6,961,760
2. Nelson Mandela Bay Tourism	13,136,840	12,393,240	13,136,840	12,393,240
3. Surf lifesaving Club	227,622	182,185	227,622	182,185
<b>Grants / payments to Other Organisations</b>	<b>20,743,932</b>	<b>19,537,185</b>	<b>20,743,932</b>	<b>19,537,185</b>

Although a related party relationship does exist, the transactions were made in the ordinary course of business and as such the transactions do not constitute related party transactions as per the definition per IPSAS 20 on related parties. However these amounts have been included as the additional disclosure is required by the MFMA.

<b>36.3 Suppliers in which close family members of employees, councillors/ directors or Mayor has an interest</b>	<b>Economic Entity and Municipality Payments made</b>	
Family of employees who have an interest in a supplier	48,316,653	174,082,533

Although a related party relationship does exist as awards were made to suppliers in which close family members of employees have an interest, these transactions were in the ordinary course of business at market related rates. However this disclosure has been included as required by SCM regulation 45.

Although a related party relationship does exist, contracts were awarded to certain councillors and officials in which they have an interest. These transactions were made in the ordinary course of business at market related rates. However this disclosure has been included as required by SCM regulation 44.	7,621,942	16,037,085
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**36.4 Supply Chain Management Policy**

The Municipal Manager has the power to authorise deviations from the normal Procurement Process. The deviations for the 2016/17 financial year are detailed as follows in terms of section 39 (1) (a) of the Supply Chain Management Policy:

<b>1. Nelson Mandela Bay Metropolitan Municipality</b>	<b>2017</b>	<b>Restated 2016</b>
<b>Deviations: Supply Chain Management Policy</b>	<b>Payments made R</b>	<b>Payments made R</b>
(i) In an emergency;	9,402,662	0
(ii) If such goods or services are produced or available from a single provider only;	18,978,543	1,928,973
(iii) For the acquisition of special works of art, artistic services or historical objects where specifications are difficult to compile;	16,700	0
(v) In any other exceptional cases where all possible options have been explored, and it is still impractical or impossible to follow the official procurement processes	25,097,325	2,226,193
39 (1) (b) - Ratify any minor breaches of the procurement processes.	0	0

**2. Mandela Bay Development Agency**

**2017 Financial year:**

In accordance with section 36(1)(a)(i) of SCM policy regulations there were deviations from the normal procurement process to the value of R533 148 (MBDA) and R112 672 (Stadium)

In accordance with section 36(1)(a)(ii) of SCM policy regulations there were deviations from the normal procurement process to the value of R483 006 (MBDA) and R346 177 (Stadium)

In accordance with section 36(1)(a)(v) of SCM policy regulations there were deviations from the normal procurement process to the value of R318 481 (MBDA) and R6 777 624 (Stadium)

**2016 Financial year:**

In accordance with section 36(1)(a)(i) of SCM policy regulations there were deviations from the normal procurement process to the value of R474 910.

In accordance with section 36(1)(a)(ii) of SCM policy regulations there were deviations from the normal procurement process to the value of R1 124 394.

In accordance with section 36(1)(a)(iii) of SCM policy regulations there were deviations from the normal procurement process to the value of R500 000.

In accordance with section 36(1)(a)(v) of SCM policy regulations there were deviations from the normal procurement process to the value of R764 957.

## NELSON MANDELA BAY METROPOLITAN MUNICIPALITY

## NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

37	CAPITAL COMMITMENTS	Economic Entity		Municipality	
		2017 R	Restated 2016 R	2017 R	Restated 2016 R
	<b>Approved and contracted for</b>	<b>273,090,851</b>	<b>430,276,498</b>	<b>273,090,851</b>	<b>430,276,498</b>
	Land and Buildings	5,319,557	38,867,872	5,319,557	38,867,872
	Infrastructure	246,752,961	339,611,119	246,752,961	339,611,119
	Community	1,397,259	26,994,827	1,397,259	26,994,827
	Intangible	19,621,074	24,802,680	19,621,074	24,802,680
	Other	0	0	0	0
	<b>Approved but not yet contracted for</b>	<b>29,626,810</b>	<b>83,737,370</b>	<b>29,626,810</b>	<b>83,737,370</b>
	Infrastructure	27,825,489	80,092,032	27,825,489	80,092,032
	Community	1,735,657	575,432	1,735,657	575,432
	Intangible	65,664	0	65,664	0
	Other	0	3,069,906	0	3,069,906
	<b>Total</b>	<b>302,717,661</b>	<b>514,013,868</b>	<b>302,717,661</b>	<b>514,013,868</b>
	<b>This expenditure will be financed from:</b>				
	Fuel Levy	13,324,054	81,884,545	13,324,054	81,884,545
	Equitable Share (E-Share)	5,319,557	22,059,473	5,319,557	22,059,473
	Walmer Intervention Grant	0	20,169,176	0	20,169,176
	Neighbourhood Development Partnership Grant	0	262,573	0	262,573
	Urban Settlements Development Grant (USDG)	253,822,641	365,724,119	253,822,641	365,724,119
	Integrated Public Transport Grant	10,321,232	0	10,321,232	0
	Capital Replacement Reserve	19,930,177	23,913,982	19,930,177	23,913,982
	<b>Total</b>	<b>302,717,661</b>	<b>514,013,868</b>	<b>302,717,661</b>	<b>514,013,868</b>
38	<b>UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION</b>				
	Long-term liabilities (See Note 3)	1,357,780,206	1,454,042,868	1,357,780,206	1,454,042,868
	Used to Finance property, plant and equipment - at cost	1,357,780,206	1,454,042,868	1,357,780,206	1,454,042,868
	Sub-total	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	<b>Cash set aside for the repayment of long-term liabilities (See Note 3) - This is only the capital portion of the loan.</b>	<b>87,089,172</b>	<b>95,438,884</b>	<b>86,409,283</b>	<b>93,919,738</b>
39	<b>FINANCIAL RISK MANAGEMENT</b>				

There have been no significant changes in the risks below from the prior year to current. The risks have remained the same.

**Interest rate risk**

The NMBM is not exposed to interest rate risk on its financial liabilities. All of the NMBM's interest-bearing external loan liabilities, as detailed in Note 3 are fixed interest loans. No interest rate swap agreements have been entered into. The NMBM invests its surplus funds in fixed interest rate deposits with banks for fixed terms not exceeding one year.

**Liquidity risk**

The liquidity risk is the risk that the NMBM is not able to settle its obligations. The NMBM manages liquidity risk by effectively managing its working capital, capital expenditure, external borrowings and cash flows. The NMBM has secured standby credit facilities in the form of an overdraft facility with its banker in order to cater for any unexpected temporary shortfall in operating funds. The maximum exposure to liquidity risk is the trade creditors and long term borrowings. Consumer deposits have a low exposure to liquidity risk.

The following table details the NMBM's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the NMBM can be required to pay. The table includes both estimated interest and principal cash flows. A sensitivity analysis was not considered to be necessary.

**Trade payables**

1-3 months	1,222,811,384	1,249,753,853	1,209,390,567	1,243,630,919
> 3 months	207,075,256	186,817,508	207,075,256	186,817,508

**Other payables**

> 3 months	3,993,406	4,176,349	3,993,406	3,943,532
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**Long term borrowings**

< 12 months	0	0	86,409,283	93,919,738
> 12 months	1,289,568,185	1,376,718,616	1,289,121,450	1,376,718,616

**Credit risk**

The NMBM manages credit risk in its borrowing and investing activities by dealing with only A-rated financial institutions, and by spreading its exposure over a range of such institutions in accordance with its approved Cash Management and Investments Policy. Credit risk relating to consumer debtors is managed in accordance with NMBM's credit control and debt collection policy. The NMBM's credit exposure is spread over a large number and wide variety of consumers and is not concentrated in any particular sector or geographical area. Adequate provision has been made for anticipated bad and doubtful debts. Additional information relating to the analysis of consumer debtors is given in Note 15 to the financial statements. The maximum exposure to credit risk is the consumer debtors, which may reduce as a result of non-payment by debtors.

Refer to note 52 for table.

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
**NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

**39 FINANCIAL RISK MANAGEMENT (Continued)**

**Fair value interest risk**

The NMBM is exposed to fair value interest rate risk on its external loan liabilities, which are all fixed interest rates. The fair value of financial assets and liabilities are disclosed and compared with their carrying values. See note 52 for fair values of all financial liabilities. SANLAM shares is the only financial instrument and has a very low risk exposure and have been disclosed at the Market value of the share as at 30 June.

**Currency risk**

There were no currency risk exposure in the current and prior year.

	<b>Economic Entity Restated 2016 R</b>	<b>Municipality Restated 2016 R</b>
<b>40 RESTATED PRIOR YEAR COMPARATIVES</b>		
<b><u>Prior Period Adjustments:</u></b>		
Net effect of changes - see details below	<b>8,641,766</b>	<b>8,641,766</b>
<b>Net effect on surplus</b>	<b><u>8,641,766</u></b>	<b><u>8,641,766</u></b>
<b><u>Statement of Financial Performance</u></b>		
<b>40.1.1 Surplus for the year</b>		
Balance as per audited financial statements (as previously reported)	<b>783,175,595</b>	<b>777,162,556</b>
<b>Net effect on surplus</b>	<b>8,641,766</b>	<b>8,641,766</b>
General Expenses (Refer 40.1.2)	(3,407,695)	(3,407,695)
Other Income (Refer 40.1.3)	11,618,279	11,618,279
Repairs and Maintenance (Refer 40.1.4)	(382,827)	(382,827)
Service Charges (Refer 40.1.5)	3,280,515	3,280,515
Interest raised - Outstanding Debtors (Refer 40.1.6)	360	360
Rental of Facilities and Equipment (Refer 40.1.7)	324,180	324,180
Fines (Refer 40.1.8)	881,196	881,196
Grant and Subsidies Paid (Refer 40.1.9)	1,989,524	1,989,524
Contracted Services (Refer 40.1.10)	13,623,232	13,623,232
Employee Related Costs (Refer 40.1.11)	(992,139)	(992,139)
Bulk Purchases (Refer 40.1.12)	(1,365,849)	(1,365,849)
Depreciation (Refer 40.1.13)	56,900	56,900
Property Rates (Refer 40.1.14)	(16,983,910)	(16,983,910)
<b>Restated surplus for 2015/16</b>	<b><u>791,817,361</u></b>	<b><u>785,804,322</u></b>
<b>40.1.2 General expenses</b>		
<b>Expense as per Audited financial statements (as previously reported)</b>	<b>740,297,884</b>	<b>702,648,943</b>
Transfer from Creditors	3,662,168	3,662,168
Transfer to Repairs and Maintenance	(254,473)	(254,473)
	<b><u>743,705,579</u></b>	<b><u>706,056,638</u></b>
Expenses in the amount of R3 407 695, which have not been previously accrued for.		
<b>40.1.3 Other Income</b>		
<b>Income as per Audited financial statements (as previously reported)</b>	<b>298,520,103</b>	<b>298,520,103</b>
Transfer to Other Debtors	11,618,279	11,618,279
	<b><u>310,138,382</u></b>	<b><u>310,138,382</u></b>
Debtors in the amount of R11 618 279 (net effect) previously not recognised.		
<b>40.1.4 Repairs and Maintenance</b>		
<b>Expense as per Audited financial statements (as previously reported)</b>	<b>408,906,418</b>	<b>408,327,337</b>
Transfer to Other Debtors	128,354	128,354
Transfer from General Expenses	254,473	254,473
	<b><u>409,289,245</u></b>	<b><u>408,710,164</u></b>
Repairs and Maintenance in the amount of R382 827, not accrued for previously.		
<b>40.1.5 Service Charges</b>		
<b>Income as per Audited financial statements (as previously reported)</b>	<b>4,645,943,396</b>	<b>4,646,027,311</b>
Transfer to Other Debtors	3,280,515	3,280,515
	<b><u>4,649,223,911</u></b>	<b><u>4,649,307,826</u></b>
Debtors in the amount of R3 280 515 (net effect), relates to various income not previously recognised.		
<b>40.1.6 Interest raised - Outstanding Debtors</b>		
<b>Income as per Audited financial statements (as previously reported)</b>	<b>106,336,043</b>	<b>106,336,043</b>
Transfer to Other Debtors	360	360
	<b><u>106,336,403</u></b>	<b><u>106,336,403</u></b>
Other Debtors raised in the 2016 financial year which relates to 2015 financial year.		

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
 NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

40 RESTATED PRIOR YEAR COMPARATIVES (Continued)	Economic Entity Restated 2016 R	Municipality Restated 2016 R
<b>40.1.7 Rental of Facilities and Equipment</b>		
Income as per Audited financial statements (as previously reported)	20,717,550	20,717,550
Transfer to Other Debtors	<u>324,180</u>	<u>324,180</u>
	<u><b>21,041,730</b></u>	<u><b>21,041,730</b></u>
Debtors in the amount of R324 180 (net effect), relates to various income not previously recognised.		
<b>40.1.8 Fines</b>		
Income as per Audited financial statements (as previously reported)	223,579,941	223,579,941
Transfer to Other Debtors	<u>881,196</u>	<u>881,196</u>
	<u><b>224,461,137</b></u>	<u><b>224,461,137</b></u>
Debtors in the amount of R881 196 (net effect), relates to various income not previously recognised.		
<b>40.1.9 Grants and Subsidies Paid</b>		
Income as per Audited financial statements (as previously reported)	24,824,941	71,005,638
Transfer to Other Debtors	<u>(1,989,524)</u>	<u>(1,989,524)</u>
	<u><b>22,835,417</b></u>	<u><b>69,016,114</b></u>
Debtors in the amount of R1 989 524 (net effect), relates to unspent grant of the entity not previously recognised.		
<b>40.1.10 Contracted Services</b>		
Expense as per Audited financial statements (as previously reported)	495,397,932	495,397,932
Transfer from Creditors	<u>(13,623,232)</u>	<u>(13,623,232)</u>
	<u><b>481,774,700</b></u>	<u><b>481,774,700</b></u>
Expenses in the amount of R13 623 232, which have not been previously accrued for and double accrued for.		
<b>40.1.11 Employee Related Costs</b>		
Expense as per Audited financial statements (as previously reported)	2,342,754,936	2,328,851,701
Transfer from Creditors	<u>992,139</u>	<u>992,139</u>
	<u><b>2,343,747,075</b></u>	<u><b>2,329,843,840</b></u>
Expenses in the amount of R992 139, which have not been previously accrued for.		
<b>40.1.12 Bulk Purchases</b>		
Income as per Audited financial statements (as previously reported)	2,814,366,370	2,814,366,370
Transfer from Creditors	<u>1,365,849</u>	<u>1,365,849</u>
	<u><b>2,815,732,219</b></u>	<u><b>2,815,732,219</b></u>
Expenses in the amount of R1 365 849, which have not been previously accrued for.		
<b>40.1.13 Depreciation</b>		
Income as per Audited financial statements (as previously reported)	674,053,253	673,698,136
Transfer to Property, Plant and Equipment	<u>(56,900)</u>	<u>(56,900)</u>
	<u><b>673,996,353</b></u>	<u><b>673,641,236</b></u>
Depreciation in the amount of R56 900, which have not been previously provided for.		
<b>40.1.14 Property Rates</b>		
Income as per Audited financial statements (as previously reported)	1,519,447,232	1,519,447,232
Transfer to Consumer Debtors	<u>(16,983,910)</u>	<u>(16,983,910)</u>
	<u><b>1,502,463,322</b></u>	<u><b>1,502,463,322</b></u>
Property Rates adjustments in the amount of R16 983 910 written of in 2017 financial year relating to prior financial years have now been taken into account.		

## NELSON MANDELA BAY METROPOLITAN MUNICIPALITY

## NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

40 RESTATED PRIOR YEAR COMPARATIVES (Continued)	Economic Entity Restated 2016 R	Municipality Restated 2016 R
<b>Statement of Financial Position</b>		
<b>40.2 Accumulated Surplus</b>		
<b>Closing Balance as per audited financial statements (as previously reported)</b>	<b>5,118,749,464</b>	<b>5,111,239,746</b>
Decrease in Surplus (Refer to Note 40.1.1)	<b>8,641,766</b>	<b>8,641,766</b>
	<b>(13,746,455)</b>	<b>(14,073,308)</b>
Transfer to VAT Payable	(1,202,686)	(1,202,686)
Transfer to Creditors	(1,072,637)	(1,072,637)
Transfer to Consumer Debtors	(23,058,046)	(23,058,046)
Transfer from Other Debtors	11,586,914	11,260,061
<b>Restated Closing Balance</b>	<b><u>5,113,644,775</u></b>	<b><u>5,105,808,204</u></b>
<b>40.2.1 Creditors - Exchange Transactions</b>		
<b>Balance as per Audited financial statements (as previously reported)</b>	<b>1,706,502,272</b>	<b>1,699,466,918</b>
Transfer to General Expenses	3,662,168	3,662,168
Transfer to VAT Payable	3,253,828	3,253,828
Transfer to Contracted Services	(13,623,232)	(13,623,232)
Transfer to Employee Related Costs	992,139	992,139
Transfer to Bulk Purchases	1,365,849	1,365,849
Transfer to Other Debtors	(1,324,125)	(1,324,125)
Transfer from Accumulated Surplus	1,072,637	1,072,637
Transfer to Property, plant and equipment	70,040	-
	<b><u>1,701,971,576</u></b>	<b><u>1,694,866,182</u></b>

General Expenses in the amount of R4 600 736 (net effect) relates to both creditors not previously accrued for or creditors that have been double accrued for.

Deferred Income understated by R70 040

## NELSON MANDELA BAY METROPOLITAN MUNICIPALITY

## NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

40 RESTATED PRIOR YEAR COMPARATIVES (Continued)	Economic Entity Restated 2016 R	Municipality Restated 2016 R
<b>40.2.2 Other Debtors</b>		
<b>Balance as per Audited financial statements (as previously reported)</b>	<b>407,966,061</b>	<b>430,707,436</b>
Transfer to Other Income	11,618,279	11,618,279
Transfer to Repairs and Maintenance	(128,354)	(128,354)
Transfer to Service Charges	3,280,515	3,280,515
Transfer to Rental of facilities	324,180	324,180
Transfer to Interest earned - outstanding debtors	360	360
Transfer to Fines	881,196	881,196
Transfer to VAT	3,262,158	3,262,158
Transfer from Accumulated Surplus	11,586,915	11,260,062
Transfer to Creditors	(1,324,125)	(1,324,125)
Transfer to Grants and Subsidies Paid	1,989,524	1,989,524
	<u><b>439,456,709</b></u>	<u><b>461,871,231</b></u>

Debtors in the amount of R31 490 648 (net effect), relates to various income not previously recognised.

<b>40.2.3 Vat Payable</b>		
<b>Balance as per Audited financial statements (as previously reported)</b>	<b>10,813,448</b>	<b>10,813,448</b>
Transfer from Accumulated Surplus	1,202,686	1,202,686
Transfer from Creditors	(3,253,828)	(3,253,828)
Transfer from Other Debtors	3,262,158	3,262,158
	<u><b>12,024,464</b></u>	<u><b>12,024,464</b></u>

Vat in the amount of R3 004 558 (net effect), relates to various income not previously accrued for.

Vat in the amount of R1 793 542 (net effect), relates to various expenses not previously accrued for.

<b>40.2.4 Property, plant and equipment</b>		
<b>Balance as per Audited financial statements (as previously reported)</b>	<b>14,334,322,403</b>	<b>14,327,151,764</b>
Transfer Depreciation	56,900	56,900
Transfer from Creditors	70,040	0
Transfer from Deferred Income	256,814	0
	<u><b>14,334,706,157</b></u>	<u><b>14,327,208,664</b></u>

Depreciation in the amount of R56 900, which have not been previously provided for.

Assets of the Entity was understated by R326 854

<b>40.2.5 Deferred Income</b>		
<b>Balance as per Audited financial statements (as previously reported)</b>	<b>609,071</b>	<b>0</b>
Transfer to Property, plant and equipment	256,814	0
	<u><b>865,885</b></u>	<u><b>0</b></u>

Deferred Income understated by R256 814

<b>40.2.6 Consumer Debtors</b>		
<b>Balance as per Audited financial statements (as previously reported)</b>	<b>1,307,127,175</b>	<b>1,307,127,175</b>
Transfer to Accumulated Surplus	(23,058,046)	(23,058,046)
Transfer to Property Rates	(16,983,910)	(16,983,910)
	<u><b>1,267,085,219</b></u>	<u><b>1,267,085,219</b></u>

Property Rates adjustments in the amount of R40 041 956 written of in 2017 financial year relating to prior financial years have now been taken into account.

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
**NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

**41 CHANGE IN ACCOUNTING ESTIMATE**  
**LONG SERVICE AWARDS**

The basis on which the calculation has been done has changed so that all employees are calculated on the same method, as previously Uitenhage employees were differently calculated from other greater NMBM employees.

An actuarial valuation was thus done to determine the possible future value of the long service award based on the new method. Refer note 4.1 for the increase in the value.

**42 CHANGE IN ACCOUNTING ESTIMATE**  
**PROPERTY, PLANT AND EQUIPMENT**

**2017 Financial year**

A conditional assessment is done annually on property, plant and equipment, which indicates whether the useful lives of the assets have increased or decreased and as a result of this condition assessment some assets' useful lives have either increased or decreased and therefore the depreciation charge has now changed, which is included in the total depreciation/ amortisation.

**2016 Financial year**

A conditional assessment is done annually on property, plant and equipment, which indicates whether the useful lives of the assets have increased or decreased and as a result of this condition assessment some assets' useful lives have either increased or decreased and therefore the depreciation charge has now changed, which is included in the total depreciation/ amortisation.

**43 OPERATING LEASE COMMITMENTS**  
**Municipality as Lessee**

**Economic Entity**  
**2017 Restated 2016**  
**R R**

**Municipality**  
**2017 Restated 2016**  
**R R**

The Municipality normally enters into a lease agreement over 3 years for most of the Operating leases.

Some leases have escalations ranging between 7 and 10% and an option to renew.

Some lease have restrictions, such as not to sub-let or not to sub-let without consent.

**Future minimum lease payments under non-cancellable operating leases:**

	<b>14,170,971</b>	<b>15,670,264</b>	<b>13,333,420</b>	<b>15,665,264</b>
<b>Buildings</b>				
Payable within one year	8,164,557	11,503,663	8,163,557	11,502,663
Payable within two to five years	6,006,414	4,166,601	5,169,863	4,162,601
<b>Photocopier, fax machines and other equipment</b>	<b>17,018,745</b>	<b>10,530,217</b>	<b>16,478,578</b>	<b>10,282,127</b>
Payable within one year	8,208,976	6,132,933	7,984,186	5,975,935
Payable within two to five years	8,809,769	4,397,284	8,494,392	4,306,192
	<b>31,189,716</b>	<b>26,200,481</b>	<b>29,811,998</b>	<b>25,947,391</b>

**Municipality as Lessor**

At reporting date, the Municipality has contracted with tenants for the following minimum lease payments over a period of 1 to 99 years:

	<b>13,040,000</b>	<b>13,520,000</b>	<b>13,040,000</b>	<b>13,520,000</b>
<b>Land</b>				
Receivable within one year	480,000	480,000	480,000	480,000
Receivable within two to five years	1,920,000	1,920,000	1,920,000	1,920,000
Receivable after 5 years	10,640,000	11,120,000	10,640,000	11,120,000
<b>Buildings</b>	<b>28,462,111</b>	<b>29,931,364</b>	<b>28,462,111</b>	<b>29,931,364</b>
Receivable within one year	1,041,003	1,469,259	1,041,003	1,469,259
Receivable within two to five years	1,733,590	2,377,179	1,733,590	2,377,179
Receivable after 5 years	25,687,518	26,084,926	25,687,518	26,084,926
	<b>41,502,111</b>	<b>43,451,364</b>	<b>41,502,111</b>	<b>43,451,364</b>



NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

		Economic Entity and Municipality	
		2017	Restated 2016
		R	R
<b>44</b>	<b>UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED</b>		
	<b>Incident / Disciplinary steps / Criminal Proceedings</b>		
<b>44.1</b>	<b>Unauthorised Expenditure</b>		
	Opening Balance	123,836,961	157,718,906
	Incurring - Current year	431,929,542	521,056
	Approved by Council	0	(34,403,001)
	Recoveries - Current year	0	0
		<b>555,766,503</b>	<b>123,836,961</b>
<b>1</b>	<b>Actual expenditure in excess of approved budget votes</b>		
	The total actual expenditure, including non-cash flow items amounted to <b>R10 584 922 064</b> , compared to the approved adjustments budget of <b>R11 284 255 371</b> . The actual expenditure was thus <b>R699 333 307</b> below the approved adjustments budget and does not constitute unauthorised expenditure.	431,929,542	0
	The total actual expenditure per budget vote exceeded the approved adjustments budget for certain Directorates by <b>R431 929 542 due to a non-cash provision relating to employee related costs</b> .		
<b>2</b>	<b>Unauthorised expenditure incurred relating to funeral</b>		
	Non compliance with Councilor Welfare Policy Par 4 Financial Implications of Civic Funeral Policy approved by Council at meetings 25 and 30 June 2009.	0	44,056
<b>3</b>	<b>Unauthorised expenditure incurred relating to payment of Ward Committee</b>		
	It was resolved by Council that all Ward Committee members be paid R 9000 per member for the period October 2011 - July 2014, subject to funding availability of R 4 050 000. An amount of R 4 527 000 was paid to committee members.	0	477,000
	<b>Total</b>	<b>431,929,542</b>	<b>521,056</b>
	<b>Approved by Council</b>	0	(34,403,001)
<b>44.2</b>	<b>Irregular Expenditure</b>		
	Opening Balance - previously stated	3,350,464,692	1,134,899,988
	Opening Balance - Review by Internal audit - previously stated	0	951,256,090
	Approved by Council - Other - 2015 and prior	0	(3,494,609)
	Restated Opening Balance	<b>3,350,464,692</b>	<b>2,082,661,469</b>
	Incurring - Current year - Relating to current year (awards)	44,405,652	0
	Incurring - Current year - Relating to prior year (awards / other)	8,153,729,634	1,277,504,866
	Approved by Council - Other	(36,052,245)	(9,701,643)
		<b>11,512,547,733</b>	<b>3,350,464,692</b>
<b>1</b>	<b>Breach of the Supply Chain Management policy</b>		
	A breach occurred as certain contracts were awarded to persons in the service of the state where he/she may have a significant influence over the financial or operating policies of the entity.	255,765,669	172,487,667
<b>2</b>	<b>Breach of the Supply Chain Management policy</b>		
	A breach occurred as certain contracts were awarded to persons in the service of the state (certain officials and family of officials) where he/she may have a significant influence over the financial or operating policies of the entity.	52,374,893	35,900,393
<b>3</b>	<b>SCM Deviations</b>		
	Some of the deviations relating to the informal tender process appear to be made where improper planning was conducted and expenditure were incurred before the deviation was approved and therefore considered to be irregular.	185,771,424	140,450,501
<b>4</b>	<b>Acting Appointments longer than 3 months</b>		
	Certain Senior Managers acted for periods longer than the 3 months in the 2013/14 financial year and no proof could be found on employee files that the MEC gave permission to act longer than 3 months.	0	0

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
 NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

		Economic Entity and Municipality	
		2017	Restated 2016
		R	R
<b>44</b>	<b>UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED (Continued)</b>		
<b>44.2</b>	<b><u>Irregular Expenditure (Continued)</u></b>		
<b>5</b>	<b>Irregular appointments</b>		
	Four mayoral satellite office coordinators were appointed in contravention of section 66 of the Local Government: Municipal Systems Amendment Act, 2011.	278,038	971,522
	A strategic advisor in the Executive Mayor's Office was appointed in contravention of section 66 of the Local Government: Municipal Systems Amendment Act, 2011.	0	1,324,596
	Two mayoral satellite office coordinators were appointed in contravention of section 66 of the Local Government: Municipal Systems Amendment Act, 2011.	88,072	263,292
<b>6</b>	<b>No City Manager approval to deviate</b>		
	Irregular procurement process, post event acquisition, original work completed without authority / purchase order, No City Manager Approval to deviate.	0	24,374
<b>7</b>	<b>Breach of the Supply Chain Management policy</b>		
	A breach occurred as arrear accounts relating to properties leased for accommodating various Municipal Offices without following proper SCM processes and without proper budget availability considerations.	0	7,372,892
<b>8</b>	<b>Breach of the Supply Chain Management policy</b>		
	Expenditure Incurred in respect of utilizing the services of a catering company prior to following SCM processes. It appears as if although the caterer was listed as an approved caterer on the Council's database, no requisition / purchase order was processed in order to procure the services.	0	153,000
<b>9</b>	<b>Breach of the Supply Chain Management policy</b>		
	Payment made to service provider for work done before order number was issued.	0	461,195
<b>10</b>	<b>Payments made without a proper organogram in place</b>		
	Payments were made for acting, but no formal position exist	28,561	0
<b>11</b>	<b>Breach of the Supply Chain Management policy</b>		
	Payments made which was in contravention of the scm policy.	78,853,043	0
<b>12</b>	<b>Breach of the Supply Chain Management policy</b>		
	Payments made which was in contravention of the scm policy which was not previously disclosed.	19,143,373	0
<b>13</b>	<b>Irregular Expenditure review by Internal Audit</b>		
	NB: This section of the Irregular Expenditure represents the "historic" irregular expenditure incurred as reported by Internal Audit Unit in terms of the two reports that were issued in 2014/15 and 2015/16 relating to a number of financial years dating back from around 2003. The irregularity in these instances continued to 2016/17 financial year as some of the tender / SCM Files were still in use (or work proceeding). This figure therefore does not relate to any irregularity that may have occurred during the year under review (i.e. 2016/17). Important to note is the fact that there are reports that have been taken to Council structures in order to deal with these matters and the first reports are to be discussed at MPAC Sub Committee on the 31 August 2017.		
	<b>Non-compliance with regards to the Formal Bid and Deviation process</b>		
	Incurred - Current year - Relating to current year Tenders	44,405,652	0
	Incurred - Current year - Relating to prior year Tenders	814,472,936	939,185,566
	Add: Transferred from Limitation of scope - prior year awards (Note 14)	6,790,773,195	0
	<b>Deduct: Expenditure previously disclosed</b>		
	<b>Irregular Expenditure</b>		
	2016/17	(43,819,570)	(21,090,132)
	<b>Total</b>	<b>8,198,135,286</b>	<b>1,277,504,866</b>
	Total amount approved by Council in respect of ALL cases	(36,052,245)	(9,701,643)

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
 NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	Economic Entity and Municipality	
	2017 R	Restated 2016 R
<b>44 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED (Continued)</b>		
<b>44.2 Irregular Expenditure (Continued)</b>		
<b>14 Information not available (Limitation of Scope)</b>		
Opening Balance	13,081,135,054	12,147,645,554
Incurred - Current year - Relating to prior year Tenders	1,088,765,149	1,093,667,898
Less: Transferred to Irregular Expenditure - prior year awards (Note 14)	(6,790,773,195)	0
	<b>7,379,127,008</b>	<b>13,241,313,452</b>
Deviations not considered as a limitation of scope	48,748,536	95,656,922
Contracts awarded in the Service of state not considered as a limitation	67,403,030	64,521,476
	<b>7,262,975,442</b>	<b>13,081,135,054</b>

This section of the note has not been included in the Irregular expense calculation, because it is impracticable in terms of GRAP 1 to determine whether the tender files are indeed Irregular or Regular as described below:

Section 44.2.14 of this disclosure note represents expenditure incurred on SCM / Tender files that were declared by Internal Audit Unit in around 2014/15 and 2015/16 to be a LIMITATION OF SCOPE as the AG could not be provided with the said files. The expenditure referred to dates back to around 2003 financial year. As the expenditure on the affected SCM / Tender Files continued to the 2016/17 financial year the actuals have been extended to include the reported financial year. Detailed reports dealing with these files are to be submitted to Council structures starting from the MPAC Sub Committee dated 31 August 2017, whereafter the note will be amended only after Council approves the recommendation/s on how to deal with these matters. This effectively means that this expenditure is historic or relates to historic financial years.

**44.3 Fruitless and Wasteful Expenditure**

Opening Balance	<b>607,388,508</b>	<b>551,320,168</b>
Restatement - Incurred		1,766,365
Restatement - Approved by Council previous year	0	(1,691,133)
Restated Opening Balance	<b>607,388,508</b>	<b>551,395,400</b>
Incurred - Current year	18,244,247	56,028,494
Approved by Council - Other / Condoned by Board	(4,242,912)	(35,386)
	<b>621,389,843</b>	<b>607,388,508</b>

**1 Suspended Officials**

Various officials have been on suspension for more than 3 months. In terms of the South African Local Government Bargaining Council; disciplinary procedure and collective agreement, the period of suspension shall not exceed a period of 3 months. **Matter to be referred to Labour Relations.**

4,303,958	3,647,085
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NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
 NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

		Economic Entity and Municipality	
		2017	Restated 2016
		R	R
<b>44</b>	<b>UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED (Continued)</b>		
<b>2</b>	Interest accrued due to late payment of Eskom account	80,869	653
	Interest accrued as result of late submission of SDL/ UIF/ PAYE EMP form.	0	418,086
<b>3</b>	<b>Wasteful expenditure incurred relating to IPTS</b> The metro has been mandated to install and operate an integrated transport system. The process started as far back as 2004/5 and the plan was to have the system operational and the buses on the road. To date the system is not operating therefore it is considered to be wasteful expenditure.	0	26,385,789
<b>4</b>	<b>Late payment of interest</b> In terms of Section 13A of the Pension Funds Act - Late payment of Interest on arrear contributions for the period 01 December 2007 to 09 October 2015.	0	266,764
<b>5</b>	<b>Wasteful expenditure incurred relating to flights and accommodation</b> Flights and accommodation was booked for an official to attend IMFO conference from 04-07 Oct 2015. The official was a no show and did not cancel reservations or bookings.	0	6,499
<b>6</b>	<b>Wasteful expenditure incurred due to garnishees</b> A number of garnishees was served on NMBM by the Sheriff of the court due to non-payment of certain suppliers resulting in fruitless and wasteful expenditure	0	312,403
<b>7</b>	<b>Wasteful expenditure incurred relating to SALA payment</b> Shortfall that was made on SALA contribution in April 2013. Since then the amount has accumulated interest as it has not been paid.	0	7,185
<b>8</b>	<b>Wasteful expenditure incurred in terms of Operational Efficiency Work Plan</b> Transgressions to the Municipal Policies in terms of Operational Efficiency Work Plan and National Treasury Instructions.	0	5,829
<b>9</b>	<b>Payment of civil claim for motor vehicle accident</b> An official within the Legal Division processed a payment for a civil claim in relation to a motor vehicle accident. Internal Audit investigated the matter and determined that the motor vehicle did not belong to the NMBM.	0	11,340
<b>10</b>	<b>Payment to recruitment service provider</b> It would appear that a Service Provider has been irregularly appointed by the Executive Director: Corporate Services for the recruitment and selection of staff within the Human Settlements Directorate. This recruitment process resulted in the fruitless appointment of approximately 85 contract workers in the Housing Delivery Sub-directorate.	0	18,554,312

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

		Economic Entity and Municipality	
		2017	Restated 2016
		R	R
<b>44</b>	<b>UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED (Continued)</b>		
<b>11</b>	<b>Advance payments to a service provider</b> Advance payments were made to a service provider to conclude a project. The business went into business rescue before the project was completed and the Council was paid 16 cents in the rand	0	3,230,678
<b>12</b>	<b>Paying another supplier to rectify faulty work</b> Supplier was paid to rectify incomplete and faulty plumbing of the Missionvale Housing project	5,580,000	
<b>13</b>	<b>Payment of damages in High Court award</b> Damages awarded to a service provider in a High court matter due to early termination of a contract	7,412,677	
<b>14</b>	<b>Constructive Dismissal - Court award</b> Payment made to former City Manager in terms of a Court Order granted for constructive dismissal	0	3,170,128
<b>16</b>	<b>Officials did not attend Summit</b> 4 officials did not attend a Summit for which an registration fee had been paid.	0	8,000
<b>17</b>	<b>Wasteful expenditure incurred relating to late payment of invoice</b> Fruitless and wasteful expenditure incurred during the year related to interest charges incurred on a late invoice payment to the Auditor-General . The Board subsequently wrote off this expenditure in August 2016.	0	3,743
<b>18</b>	<b>Wasteful expenditure incurred relating to invoices under dispute</b> Fruitless and wasteful expenditure incurred during the year related to payment to the Auditor-General and a payment made to a Service provider which is under dispute.	866,743	0
	<b>Total</b>	<b>18,244,247</b>	<b>56,028,494</b>
	Approved by Council - Other / Condoned by Board	(4,242,912)	(35,386)
<b>45(a)</b>	<b>CONTINGENT LIABILITIES</b> These are ongoing matters and the Municipality is unable to determine the exact timing and amount of the outcome of these matters.  Should any liability arise as a result of these claims, the Municipality will attempt to recover any amounts paid over with respect to these claims (if applicable and able to do so).  <u>Possible Contingent liabilities:</u>		
<b>1</b>	Various claims arising from alleged negligence by the Municipality due to damages sustained by the Plaintiffs.	103,433,289	84,430,524
<b>2</b>	Various claims due to municipal administrative matters that are under dispute or investigation.	816,055	1,476,243
<b>3</b>	Various claims by current or terminated employees due to alleged unfair labour practices.	17,612,598	1,470,000
<b>4</b>	Various claims due to supply chain related issues or creditor payment related matters.	71,333,943	35,114,065
		<b>193,195,885</b>	<b>122,490,832</b>
<b>45(b)</b>	<b>PROVISION FOR LITIGATION AND CLAIMS</b> <u>Detail of Provision raised in Note 5.2</u>		
<b>1</b>	Various claims arising from alleged negligence by the Municipality due to damages sustained by the Plaintiffs.	4,646,390	15,316,008
<b>2</b>	Various claims due to municipal administrative matters that are under dispute or investigation.	20,920,000	21,225,000
<b>3</b>	Various claims by current or terminated employees due to alleged unfair labour practices.	1,482,793	3,100,000
<b>4</b>	Various claims due to supply chain related issues or creditor payment related matters.	65,139,799	8,135,414
	<b>TOTAL PROVISION REFER NOTE 5.2</b>	<b>92,188,982</b>	<b>47,776,422</b>
<b>46</b>	<b>SUBSEQUENT EVENTS</b>		
<b>46.1</b>	<b>Removal of Deputy Executive Mayor</b> A Council decision has been taken on 24 August 2017 to remove the Deputy Executive Mayor, with immediate effect.		
<b>46.2</b>	<b>Takeover of the Science and Technology Centre (STC)</b> The agency has been mandated by the NMBM to take over the management and operations of the Science and Technology Centre (STC) from July 2017 onwards. The STC is an NMBM asset situated in Uitenhage and was previously managed by the Uitenhage Despatch Development Initiative, which is in the process of being deregistered as a company.		

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
**NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

**47 RETIREMENT BENEFIT INFORMATION**

The Nelson Mandela Bay Municipality makes provision for post-retirement benefits to employees who belong to different pension schemes. These funds are governed by the Pension Funds Act, and include both defined benefit and defined contribution schemes. Contribution of R247.875 million (2016: R 213.233 million) to the defined benefit and defined contribution structures are expensed as incurred during the financial year ended 30 June 2017.

**DEFINED CONTRIBUTION SCHEMES**

**CAPE RETIREMENT FUND**

The contribution rate paid by the members (9%) and the NMBM (18%) is sufficient to fund the benefits accruing from the fund in future. The actuary certified the fund as being in a sound financial position as at 30 June 2013. The funding level of the Share Account is 100.2%, the Preservation fund is 100% and the Pensions Account reflected a funding level of 105.1% as at 30 June 2013.

**SALA CONTRIBUTION FUND**

The SALA Contribution Fund operates as a defined contribution scheme. The contribution rate paid by the members (7.92%) and their councils (19.18%) is sufficient to fund the benefits accruing from the Fund in the future. The fund is 100% funded.

**SOUTH AFRICAN MUNICIPAL WORKERS UNION (SAMWU) NATIONAL PROVIDENT FUND**

The SAMWU National Provident Fund is a defined contribution scheme. The last actuarial valuation of the Fund was performed at 30 June 2008, and certified it as being in a financially sound position with the funding level remaining at 100% since the previous valuation date, 30 June 2005. The 30 June 2011 report is not available yet and is expected to be available towards the end of 2014. The contribution rate paid by the members (7.5%) and their councils (18%) is sufficient to fund the benefits accruing from the Fund in the future.

**DEFINED BENEFIT SCHEMES**

**CAPE JOINT PENSION FUND**

The defined benefit scheme is a multi-employer plan, and the contribution rate payable is 27% (9% by the members and 18% by their councils) and is constituted of 3 funds, namely, the Defined Benefit, Defined Contribution and Pensioner account. The fund was certified by the actuary as being in a sound financial condition as at 30 June 2013. The trustees resolved to ring-fence the pensioner assets as at 30 June 2013. The sections are funded at 99.7%, 99.8% and 100%, respectively.

**SALA PENSION FUND**

The defined benefit scheme is a multi-employer plan, and the contribution rate payable is 26.67% (7.92% by the members and 19.18% by their councils). This defined benefit plan, is financially sound, and was 100% funded as at 30 June 2013.

The Nelson Mandela Bay Municipality has used GRAP 25 as guidance for treatment of multi-employer plans as sufficient information was not available to use defined-benefit accounting. The Municipality has therefore accounted for the Cape Joint Pension Fund and the SALA Pension Fund as defined contribution plans. It is impracticable to disclose as a defined benefit plan because the funds do not determine a separate actuarial valuation per Municipality but do it as a whole for all the Municipalities together.

**EX GRATIA PENSIONS**

**General Description**

The Ex-gratia pension benefits scheme operates as pensions that are being paid from the Council's revenue, that is, they are not funded or paid from one of the Employer's formalised pension arrangements.

Employees who were under the age of 55 when appointed and who have at least ten years' service at retirement, will receive an annual ex-gratia pension calculated as:

Annual salary \* 1/47 \* Years of non-pensionable service

An employee's widow will get 50% of the accrued (full service) pension on the employees death. This is subject to a maximum of the Government Old Age Pension and will cease at age 60.

Pensions increase in line with those granted by the Cape Joint Pension Fund and increases at 50% of CPI inflation.

**Detailed Results**

An actuarial valuation of the Municipality's unfunded liability in respect of revenue pension benefits to eligible employees and retirees of the Nelson Mandela Bay Municipality, was performed as at 30 June 2017. The unfunded liability in respect of past service has been estimated at R46.787million, of which R43.123 million relates to the non-current portion.

**Past and Future Changes in the Accrued Liability**

The table below shows the development of the accrued liability over the current period, and projects the Municipality's Unfunded Accrued Liability and periodic costs over the two-year period following the Valuation Date.

**Past year and future projected liability**

	Year ending 30/06/2017	Year ending 30/06/2018	Year ending 30/06/2019
Opening Accrued Liability	42,827,090	46,786,903	46,948,394
Current service cost	0	0	0
Interest cost	3,490,206	3,825,559	3,838,995
Benefits paid	-3,113,490	-3,664,068	-3,671,176
<b>Total Annual Expense</b>	<b>376,716</b>	<b>161,491</b>	<b>167,819</b>
Actuarial Loss / (Gain)	3,583,097		
<b>Closing Accrued Liability</b>	<b>46,786,903</b>	<b>46,948,394</b>	<b>47,116,213</b>

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

47 Information on Post Retirement Benefits (Continued)

Balance Sheet Figures

Balance Sheet Figures

Unfunded Accrued Liability

Balance Sheet	Year ending 30/06/2017	Year ending 30/06/2018
Fair Value of Plan Assets		
Accrued Liability	46,786,903	46,948,394
<b>Unfunded Accrued Liability</b>	<b>46,786,903</b>	<b>46,948,394</b>
Unrecognised Transitional Liability	0	0
Unrecognised Actuarial Gains/(Losses)	0	0
Unrecognised Past Service Cost	0	0
Miscellaneous Item	0	0
<b>Closing Balance</b>	<b>46,786,903</b>	<b>46,948,394</b>

Reconciling and Projecting the Unfunded Accrued Liability

Unfunded Accrued Liability	Year ending 30/06/2017	Year ending 30/06/2018
Opening Balance	42,827,090	46,786,903
Current Service Cost	0	0
Interest Cost	3,490,206	3,825,559
Expected Return on Plan Assets	0	0
<b>Actuarial (Gain) /Loss</b>	<b>3,583,097</b>	<b>0</b>
Past Service Cost		
Effect of Curtailment / Settlement		
Expected Employer Benefit Payments	-3,113,490	-3,664,068
Employer Prefunding Contributions	0	0
<b>Closing Balance</b>	<b>46,786,903</b>	<b>46,948,394</b>
<b>Projected Accrued Liability</b>	<b>43,203,806</b>	<b>46,948,394</b>

Amounts to be recognised in profit or loss for the year (period)

Category	Year ending 30/06/2017	Year ending 30/06/2018
Current Service Cost (In-Service members only)	0	0
Interest Cost	3,490,206	3,825,559
Actuarial (Gain)/Loss	3,583,097	0
<b>Total employee benefits expense</b>	<b>7,073,303</b>	<b>3,825,559</b>

KEY ASSUMPTIONS

Summary of economic assumptions that were used in the valuation:

Assumption	Previous Valuation 30 June 2015	Current Valuation 30 June 2017
Discount rate	8.94% pa	8.45% pa
Future Inflation	6.57% pa	7.4% pa
Medical Inflation	8.07% pa	3.2% pa
Subsidy Inflation	0.98% pa	0.98% pa
Post Retirement Interest Rate	0.81% pa	1.5% pa

Discount Rate:

A discount rate of 8.50% per annum has been used. The corresponding index-linked yield at this term is 2.50%. These rates do not reflect any adjustment for taxation. These rates were deduced from the yield curve obtained from the Johannesburg Securities Exchange after the market close on 30 June 2017.

CPI Inflation:

This assumption is used to calculate the estimated growth in pensions of the eligible retirees. An expected inflation assumption of 5.37% was obtained from the differential between market yields on index-linked bonds (2.50%) consistent with the estimated term of the liability and those of fixed-interest bonds (8.50%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as  $(1+8.50\%-0.50\%)/(1+2.50\%)$ .

Thus, a pension increase rate of 2.68% per annum over the expected term of the liability has been assumed, which is 50% of the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 5.67% post-employment.

Salary Inflation Rate:

This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement. A general inflation rate of 6.37% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 2.01%.

Demographic Assumptions:

Demographic assumptions are required about the future characteristics of eligible employees and pensioners who are eligible for ex-gratia benefits.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

47 Information on Post Retirement Benefits (Continued)

**Pre-retirement Mortality:**

SA85-90 ultimate table, adjusted for female lives.

**Post-retirement Mortality:**

PA (90) ultimate table.

**average Retirement Age:**

The normal retirement age for eligible employees is 65. It has been assumed that these employees will retire at an average age of 63 for males and 58 for females, which then implicitly allows for expected rates of early retirement and ill-health retir

**Withdrawal from Service:**

If an eligible employee leaves, the employer's liability in respect of that employee ceases.

Withdrawal rates

Age	Withdrawal Rate	Withdrawal Rate
	Males	Females
20	24%	16%
25	18%	12%
30	15%	10%
35	10%	8%
40	6%	6%
45	4%	4%
50	2%	2%
>55	1%	1%

**Ex-Gratia Arrangement Assumptions:**

It was assumed that employer's ex-gratia arrangements would remain as they are and that the level of benefits in respect of such would remain unchanged, with the exception of allowing for inflationary adjustments.

**Plan Assets:**

Management has indicated that there are no long-term assets set aside off-balance sheet in respect of the Municipality's post-employment health care liability.

**Sensitivity Analysis**

The results are based on a number of assumptions. The extent to which the actual liability faced by the Municipality in the future differs from these results will depend on the extent to which actual expenditure differs from the assumptions made.

**Sensitivity Results**

The liability at Valuation Date was recalculated to show the effect of:

- A 1% increase and decrease in the assumed general salary inflation rate;
- A 1% increase and decrease in the discount rate;
- A one-year age reduction in the assumed rates of post-retirement mortality;
- A one-year decrease and increase in the assumed average retirement age; and
- A 50% decrease in the assumed withdrawal rates.

The table below summarises the results of the sensitivity analysis:

Sensitivity Analysis on the Accrued Liability

Assumption	Change	Employees	Pensioners	Total Liability	% Change
<b>Central Assumptions:</b>		18,746,498	8,040,405	46,786,903	
<b>Benefit increase rate</b>	+1%	20,494,279	29,859,583	50,353,862	8%
	-1%	17,219,283	26,401,222	43,620,505	-7%
<b>Discount Rate</b>	+1%	16,415,494	26,498,482	42,913,975	-8%
	-1%	21,576,872	29,773,833	51,350,705	10%
<b>Post retirement mortality</b>	-1 yr	19,135,227	28,911,437	48,046,664	3%
<b>Average retirement age</b>	-1 yr	20,720,039	28,040,405	48,760,443	4%
<b>Withdrawal Rate</b>	-50%	19,459,236	28,040,405	47,499,640	2%

**POST-EMPLOYMENT HEALTH CARE BENEFITS**

**Benefit Structure**

**Medical Aid Scheme Arrangements:**

The Municipality offers employees and continuation members (pensioners) the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical aid scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical aid scheme.

**Contribution Rate Structure:**

Members contribute according to the tables of contribution rates, which differentiate between them on the type and number of dependants. Some options also differentiate on the basis of income.



**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

**47 Information on Post Retirement Benefits (Continued)**

**Subsidy Arrangements:**

The Municipality has agreed to subsidise the medical aid contributions of retired members as follows:

In accordance with Resolution 8 of the SALGBC (SALGA), all existing and new pensioners (employees currently in service) and their dependants will receive a subsidy ranging between 60% and 70% subject to the maximum (CAP) amount of R3,871.00 (per month, per member) for the period from 1 July 2016 to 30 June 2017. The subsidy for LA Health members is 70%, while members of other schemes only qualify for a 60% subsidy. The maximum (CAP) amount was R3,871.00 in the previous financial year.

The maximum subsidy is expected to increase at 50% of inflation.

Eligible employees should have at least five years of service to qualify for a benefit at retirement.

**Valuation Method**

The Projected Unit Credit funding method has been used to determine the past service liabilities at the valuation date and the projected annual expense in the year following the valuation date.

**Post Employment Medical Aid Liabilities:**

The liability in respect of active employees is determined by discounting the projected future benefit payments in respect of these members using assumptions regarding the possible future experience. The liability has been proportioned between past service and future service.

The liability in respect of current pensioners is fully accounted for.

The current service cost is the cost of providing the benefits over the year following the valuation date.

All actuarial gains and losses are recognised immediately and we have not allowed for any disclosure under the corridor method.

**Valuation of Assets:**

As at the valuation date, the medical aid liability of the municipality was unfunded, that is, no dedicated assets have been set aside to meet this liability. Therefore, no assets have been considered as part of this valuation.

**Detailed Results**

The total liability in respect of post-retirement health care benefits amounts to R1,360.663 million as at 30 June 2017 (2016: R1,332.541 million). Provision for R1,360.663 million has been made (non-current R1,298.713 million, current R61.950 million). It is expected that approximately 4.55% of the amount provided will be expensed per annum. This is dependent on the accuracy of the assumptions below.

**Past and Future Changes in the Accrued Liability**

The table below depicts the development of the accrued liability over the current period, and projects the Municipality's Unfunded Accrued Liability and periodic costs over the next 3 periods following the Valuation Date.

**Past year and future projected liability**

	Year ending 30/06/2016 R	Year ending 30/06/2017 R'000	Year ending 30/06/2018 R'000	Year ending 30/06/2019 R'000	Year ending 30/06/2020 R'000
<b>Opening Accrued Liability</b>	<b>1,228,072,012</b>	<b>1,332,541</b>	<b>1,360,663</b>	<b>1,473,368</b>	<b>1,586,896</b>
Current service cost	40,399,544	44,010	44,099	47,337	53,006
Interest cost	107,833,956	118,774	130,556	140,987	151,770
Benefits paid	-43,764,888	-52,123	-61,950	-74,796	-84,279
<b>Total Annual Expense</b>	<b>104,468,612</b>	<b>110,661</b>	<b>112,705</b>	<b>113,528</b>	<b>120,497</b>
Actuarial Loss / (Gain)		-82,539			
<b>Closing Accrued Liability</b>	<b>1,332,540,624</b>	<b>1,360,663</b>	<b>1,473,368</b>	<b>1,586,896</b>	<b>1,707,393</b>

**Balance Sheet Figures**

**Unfunded Accrued Liability**

	Year ending 30/06/2017 R'000	Year ending 30/06/2016 R
<b>Balance Sheet</b>		
Fair Value of Plan Assets		
Accrued Liability	1,360,663	1,332,540,624
<b>Unfunded Accrued Liability</b>	<b>1,360,663</b>	<b>1,332,540,624</b>
Unrecognised Transitional Liability	0	0
Unrecognised Actuarial Gains/(Losses)	0	0
Unrecognised Past Service Cost	0	0
Miscellaneous Item	0	0
<b>Closing Balance</b>	<b>1,360,663</b>	<b>1,332,540,624</b>

**Amounts to be recognised in profit or loss for the year (period)**

Category	Year ending 30/06/2016	Year ending 30/06/2015
Current Service Cost (In-Service members only)	44,010	40,399,544
Interest Cost	118,774	107,833,956
Actuarial (Gain)/Loss [2017: Gain on Financial Basis]	-133,246	
Actuarial (Gain)/Loss [2017: Loss on Experience]	50,707	
<b>Total employee benefits expense</b>	<b>80,245</b>	<b>148,233,500</b>

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

47 Information on Post Retirement Benefits (Continued)

KEY ASSUMPTIONS

Summary of economic assumptions that were used in the valuation:

Assumption	Previous Valuation 30 June 2015	Current Valuation 30 June 2017
Discount rate	8.94% pa	8.45% pa
Future Inflation	6.57% pa	7.4% pa
Medical Inflation	8.07% pa	3.2% pa
Subsidy Inflation	0.98% pa	0.98% pa
Post Retirement Interest Rate	0.81% pa	1.5% pa

**Discount Rate:**

The discount rate that reflects the time value of money is best approximated by reference to market yields on Government Bonds. The average nominal yield curve produced by the Johannesburg Securities Exchange for SA Government bonds with duration between 15 and 20 years, has been used. The resultant discount rate is 9.66%

**Future Inflation Assumptions:**

The general inflation assumption is used to estimate the base rate for determining the rate at which the future salaries will increase. The difference between the above nominal and real bonds with duration of between 15 and 20 years has been used and allowed for a 0.5% inflation risk premium. The implied inflation assumption is therefore 6.53% per annum.

**Future medical Inflation Assumption:**

The general inflation assumption is used to estimate the base rate for determining the rate at which the future medical subsidies will increase.

It is assumed that medical cost will outstrip general inflation by about 1.5% per annum, as South Africa has experienced high medical cost inflation in recent years.

The medical cost inflation was therefore set at 8.03% per annum.

In line with the previous valuation it has been assumed that the maximum subsidy will increase at a rate of 50% of inflation. It is also noted that there has not been any increase in the maximum since 2015.

**Net Discount Rate:**

The net discount rate is the gap between the values used for the discount rate and the expected increase in salaries. The net discount rate is 1.50% per annum (derived from the discount rate of 9.66% and the expected medical inflation rate of 8.03%).

**Demographic Valuation Assumptions:**

**Pre-Retirement Mortality-**

The SA85 light mortality table, rated down by 3 years for female members, was used in the valuation for the mortality of in-service members.

**Post-Retirement Mortality-**

The PA90 ultimate mortality table was used in the valuation for the mortality of Continuation Members.

**Withdrawal Rates:**

Age	Withdrawal Rate	Withdrawal Rate
	Males	Females
20	24%	16%
30	15%	10%
40	6%	6%
50	2%	2%
55+	0%	0%

**Assumed Retirement Age:**

The normal retirement age is 65 years. Consistent with the previous years' assumptions, it has been assumed that male employees will retire at age 63 and female employees at age 58, which implicitly allows for the expected rates of early retirement.

**Family Profile:**

It is assumed that 90% of In-Service Members on a medical arrangement will be married at retirement. Males are assumed to be five years older than their female spouses. Where the data provided in respect of the Continuation Members, indicated that the spouse was married we have used the actual spouses date of birth. Members have been assumed to have no dependent children after retirement.

**Continuation of Membership:**

It has been assumed that 100% of In-Service Members will remain on the Municipality's health care arrangement should they stay until retirement. No provision has been made for employees currently not on Municipality-sponsored scheme to join prior to retirement. This is consistent with previous years' assumptions. It was assumed that employees retiring will remain on the current plan and option at retirement and it was assumed they will remain in the same income category after retirement.

**Changes since the previous valuation:**

There were no changes to the rules governing payment and eligibility for the medical subsidy since the previous valuation. As far as the assumptions are concerned, the discount rate and general inflation, which are dependent on the market at the time of valuation, are different from the previous valuation.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

47 Information on Post Retirement Benefits (Continued)

**Plan Assets:**

Management has indicated that there are no long-term assets set aside off-balance sheet in respect of the Municipality's post-employment health care liability.

**Sensitivity Analysis**

The results are based on a number of assumptions. The extent to which the actual liability faced by the Municipality in the future differs from these results will depend on the extent to which actual expenditure differs from the assumptions made.

The analysis is based on the following changes:

- (a) A 1% increase/decrease in the net discount rate; and  
(b) A 1-year increase/decrease in the normal retirement age.

**Sensitivity Analysis on the Accrued Liability (R millions)**

Assumption	Current Assumption	1% Decrease	1% Increase
	9.66%	8.66%	10.66%
<b>Discount Rate</b>			
Liability (R'000)	1,360,633	1,544,019	1,209,720
Cost / (Saving) (R'000)		183,356	-150,943
<b>Post retirement mortality</b>			
	Current Assumption Males 63, Females 58	All Members 63	All Members 65
Liability (R'000)	1,360,633	1,257,798	1,122,878
Cost / (Saving) (R'000)		-102,865	-237,785

**LONG SERVICE AWARD AND LONG SERVICE BONUS**  
Description of the Long Service Award Arrangement

**Long Service Bonuses:**

Long service benefits are awarded in the form of leave days and a percentage of annual salary. The awarded leave days have been converted into a percentage of the employee's annual salary, for valuation purposes. The conversion is based on a 250 working day year.

The LSB benefits have improved significantly from 01 July 2016. The Municipality now offers employees LSB as outlined below.

**Long Service Awards:**

In addition to the above, employees are eligible to receive a Long Service Award to the value of R2,500 upon completion of 25 years in service.

The table below describes the benefits accruing to those employed under the SALGBC LSB Agreement. The policy applicable to the subgroups appointed prior to 01 July 2016 will change to the policy outlined in tables 3.2 to 3.4, once they reach twelve years of service.

Table 3.1: Long Service Bonus for levels of past service:

Completed Service (in years)	Long Service Bonuses (% of Annual Salary)	Description
5	4%	$(5/250+2\%) \times$ annual salary
10	7%	$(10/250+3\%) \times$ annual salary
15	10%	$(15/250+4\%) \times$ annual salary
20	11%	$(15/250+5\%) \times$ annual salary
25, 30, 35, 40 and 45	12%	$(15/250+6\%) \times$ annual salary

Tables 3.2 to 3.4 describe the policy that the Municipality is phasing-in over a four-year period, for the balance of the employees. This includes all employees from the former Municipalities of Port Elizabeth, Uitenhage, Despatch and Western District Council. However, the Uitenhage employees are already on the highest level, since this was their LSB policy prior to their transfer. The purpose of the amendment of the SALGBC LSB policy is to harmonise the conditions of employment, as it relates to the LSB, across all of the Metro employees.

The bonuses are paid on a monthly basis and also apply to an employee's 13th cheque.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

47 Information on Post Retirement Benefits (Continued)

Table 3.2: Long Service Bonus for levels of past service (phase-in, year two: 01 July 2017 to 30 June 2018)

Completed Service (in years)	Long Service Bonuses (% of Annual Salary plus 13th cheque)	Description
12 to 17	4.0%	4.0% x monthly salary x 13
18 to 23	8.5%	8.5% x monthly salary x 13
24 and above	13.0%	13.0% x monthly salary x 13

Table 3.3: Long Service Bonus for levels of past service (phase-in, year three: 01 July 2018 to 30 June 2019)

Completed Service (in years)	Long Service	Description
12 to 17	4.5%	4.5% x monthly
18 to 23	9.0%	9% x monthly salary
24 and above	14.0%	14.0% x monthly

Table 3.4: Long Service Bonus for levels of past service (phase-in, year four: 01 July 2019 to 30 June 2020)

Completed Service (in years)	Long Service	Description
12 to 17	5.0%	5.0% x monthly
18 to 23	10.0%	10.0% x monthly
24 and above	15.0%	15.0% x monthly

Reconciliation of opening and closing accrued liability values

Past year and future projected liability

	Year ending 30/06/2017	Year ending 30/06/2018	Year ending 30/06/2019	Year ending 30/06/2020
Opening Accrued Liability	132,595,000	726,184,717	736,271,822	740,582,510
Current service cost	12,314,334	45,223,085	48,789,070	52,636,244
Interest cost	9,947,246	53,821,244	54,239,131	54,660,263
Expected benefit vestings	-19,343,094	-88,957,224	-98,717,513	-109,548,690
Total Annual Expense	2,918,486	10,087,105	4,310,688	-2,252,183
Past Service Cost	577,822,395			
Actuarial Loss / (Gain)	9,487,055			
Accrued Liability	726,184,717	736,271,822	740,582,510	738,330,327

Net Liability to reflect in the Balance Sheet

Net Liability in Balance Sheet	Year ending 30/06/2017	Year ending 30/06/2018
Opening Balance	135,956,781	726,184,717
Current service cost	12,314,334	45,223,085
Interest cost	9,947,246	53,821,244
Expected return on plan assets	0	0
Transitional Liability Recognised	0	0
Actuarial (Gain) / Loss Recognised in P&L	9,487,055	
Past service cost Recognised	577,822,395	0
Effect of curtailment / Settlement	0	0
Miscellaneous Item	0	0
Net Periodic Cost Recognised in P&L	609,571,030	99,044,329
Expected benefit vestings	-19,343,094	-88,957,224
Transitional Liability Recognised outside P&L	0	0
Actuarial (Gain) / Loss Recognised outside P&L	0	0
Closing Balance	726,184,717	736,271,822
Current Portion of Liability	88,957,224	98,717,513
Non-Current Portion of Liability	637,227,493	637,554,309

Key Assumptions

Key Financial Assumptions

The table below summarises the key financial assumptions used for the liabilities at the Valuation Date and the expense figures for the 2016/17 financial year.

Assumption	Value p.a.
Discount Rate	7.89%
General Salary Inflation (Long Term)	5.85%
Net Effective Discount Rate	1.92%

The salaries used in the valuation include an assumed increase on 1 July 2017 of 7.63% as per the SALGBC Circular No. 02/2017. The next salary increase was assumed to take place on 1 July 2018.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

47 Information on Post Retirement Benefits (Continued)

Key Demographic Assumptions

Assumption	Value		
	Average retirement age	63 for males; 58 for females	
Mortality during employment	SA 85-90		
Withdrawal from service	Age	Rate	
		Female	Male
	20	24%	16%
	30	15%	10%
	40	6%	6%
	50	2%	2%
	55	1%	1%

Detailed Assumptions

**Discount Rate:**

GRAP 25 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used.

Consequently, a discount rate of 7.89% per annum has been used. This is derived by using a liability-weighted average of the yields corresponding to the average term until payment of long service awards, for each employee. The corresponding liability-weighted index-linked yield is 2.41%. These rates do not reflect any adjustment for taxation. These rates were deduced from the JSE Zero Coupon bond yield after the market close on 30 June 2017.

The average duration of the total liability is 5.74 years.

**Salary Inflation Rate:**

This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement.

The assumption is traditionally split into two components, namely, General Salary Inflation and Promotional Salary Escalation. The latter is considered under demographic assumptions.

**General Salary Inflation:**

The expected inflation of 4.85% was obtained from the differential between market yields and index-linked bonds (2.41%) consistent with the estimated terms of the liabilities and those of nominal bonds (7.89%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as  $((1 + 7.89\% - 0.50\%) / (1 + 2.41\%)) - 1$ .

Thus a general salary inflation rate of 5.85% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 1.92%.

Demographic Assumptions

**Promotional Salary Scale:**

The annual inflation rates below are in addition to the General Salary Inflation assumption of 5.85% per annum for all employees.

Age Band	Additional promotional scale
20 - 24	5%
25 - 29	4%
30 - 34	3%
35 - 39	2%
40 - 44	1%
>44	0%

**Pre-Retirement Mortality:**

SA85-90 ultimate table, adjusted down for female lives.

**Average Retirement Age:**

The normal retirement age is 65. It has been assumed that male employees will retire at age 63 and female employees will retire at age 58 on average, which implicitly makes an allowance for expected rates of early and ill-health retirement.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

47 Information on Post Retirement Benefits (Continued)

LSB Arrangement Assumptions

It was assumed that the employer's LSB arrangements would remain unchanged, and that the level of benefits would remain unchanged, with the exception of allowing for inflationary adjustments.

**Plan Assets:**

Management has indicated that there are currently no long-term assets set aside off-balance sheet in respect of the LSA liability.

**Sensitivity Analysis**

The liability at Valuation Date was recalculated to show the effect of:

- (i) A 1% increase and decrease in the assumed general salary inflation rate;
- (ii) A 1% increase and decrease in the discount rate;
- (iii) A two-year decrease and increase in the assumed average retirement age of employees; and
- (iv) A 50% decrease in the assumed withdrawal rates from service.

Sensitivity Analysis on the Unfunded Accrued Liability (R Millions)

Assumption	Change	Liability	% Change
<b>Central Assumptions</b>		726.185	
General salary inflation	+1%	767.599	6%
	-1%	688.181	-5%
Discount Rate	+1%	686.378	-5%
	-1%	770.388	6%
Average retirement age	-2 yrs	610.919	-16%
	+2 yrs	843.482	16%
Withdrawal rates	-50%	805.318	11%

Sensitivity analysis on current service cost and interest costs for the year ending 30 June 2016

Assumption	Change	Current service cost	Interest cost	Total	% Change
Central Assumptions		11,416,400	9,728,900	21,145,300	
General salary inflation	+1%	12,215,400	10,304,400	22,519,800	7%
	-1%	10,692,900	9,200,600	19,893,500	-6%
Discount rate	+1%	10,753,900	10,331,000	21,084,900	0%
	-1%	12,160,000	9,037,800	21,197,800	0%
Average retirement age	-2 yrs	10,237,100	8,384,100	18,621,200	-12%
	+2 yrs	12,488,200	11,064,100	23,552,300	11%
Withdrawal rates	-50%	13,902,700	11,043,300	24,946,000	18%

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

48 PROPERTY, PLANT AND EQUIPMENT RECONCILIATION  
ECONOMIC ENTITY

Reconciliation of Carrying Value	Land & Buildings	Infrastructure	Community	Other	Total
<b>Restated Carry Value 1 July 2016</b>					
Cost	1,935,900,042	14,289,229,291	3,295,524,297	1,357,380,627	20,878,034,257
Transfers/Adjustments - Costs					-
Restatement - Cost	-	-		-	-
Disposal/Impairment					
Transfers/Adjustments - Depreciation			56,900		56,900
Accumulated Depreciation	(212,100,796)	(4,908,030,572)	(721,353,602)	(701,900,030)	(6,543,385,000)
	<b>1,723,799,246</b>	<b>9,381,198,719</b>	<b>2,574,227,595</b>	<b>655,480,597</b>	<b>14,334,706,157</b>
<b>Movement during the year ended 30 June 2017</b>					
Acquisition	78,319,569	1,183,996,847	93,878,647	(10,587,355)	1,345,607,708
Transfers / Adjustments - Cost	(1,780,453)	12,258,756	(3,393,128)	(1,038,549)	6,046,626
Transfers / Adjustment - Depreciation	855,677	4,681,489	896,617	263,510	6,697,293
Depreciation	(30,789,535)	(402,778,126)	(105,754,782)	(49,713,344)	(589,035,787)
	<b>46,605,258</b>	<b>798,158,966</b>	<b>(14,372,646)</b>	<b>(61,075,738)</b>	<b>769,315,840</b>
<b>Carry Value of Disposals/Impairments during the year ended 30 June 2017</b>					
Cost	(980,000)		(409,564)	(3,835,461)	(5,225,025)
Depreciation			224,484	3,704,451	3,928,935
	<b>(980,000)</b>	<b>-</b>	<b>(185,080)</b>	<b>(131,010)</b>	<b>(1,296,090)</b>
<b>Carrying Values at 30 June 2017</b>	<b>1,769,424,504</b>	<b>10,179,357,685</b>	<b>2,559,669,869</b>	<b>594,273,849</b>	<b>15,102,725,907</b>
<b>Summary - Carrying Values at 30 June 2017</b>					
Summary - Cost	2,011,459,158	15,485,484,894	3,385,600,252	1,341,919,262	22,224,463,566
Summary - Accumulated Depreciation	(242,034,654)	(5,306,127,209)	(825,930,383)	(747,645,413)	(7,121,737,659)
	<b>1,769,424,504</b>	<b>10,179,357,685</b>	<b>2,559,669,869</b>	<b>594,273,849</b>	<b>15,102,725,907</b>

Reconciliation of Carrying Value	Land & Buildings	Infrastructure	Community	Other	Total
<b>Restated Carry Value 1 July 2015</b>					
Cost	1,846,654,821	13,199,906,460	3,217,593,698	1,169,503,022	19,433,658,001
Transfers/Adjustments - Costs					-
Restatement - Cost	(2,449,726)	11,577,629	6,801,785	(765,336)	15,164,352
Disposal/Impairment					
Transfers/Adjustments - Depreciation					
Accumulated Depreciation	(182,370,554)	(4,511,126,771)	(619,570,238)	(654,611,343)	(5,967,678,906)
	<b>1,661,834,541</b>	<b>8,700,357,318</b>	<b>2,604,825,245</b>	<b>514,126,343</b>	<b>13,481,143,447</b>
<b>Movement during year ended 30 June 2016</b>					
Acquisition	61,722,952	1,084,870,777	73,316,727	79,212,294	1,299,122,750
Transfers / Adjustments - Cost	57,908,908	22,320,791	2,050,029	107,455,456	189,735,184
Transfers / Adjustment - Depreciation	-			76,409,040	76,409,040
Depreciation	(29,891,756)	(412,699,894)	(104,678,502)	(126,726,201)	(673,996,353)
	<b>89,740,104</b>	<b>694,491,674</b>	<b>(29,311,746)</b>	<b>136,350,589</b>	<b>891,270,621</b>
<b>Carry Value of Disposals/Impairments during the year ended 30 June 2016</b>					
Cost	(22,457,003)	(29,446,366)	(4,237,942)	(3,504,721)	(59,646,032)
Depreciation	106,143	15,796,093	2,952,038	3,083,847	21,938,121
	<b>(22,350,860)</b>	<b>(13,650,273)</b>	<b>(1,285,904)</b>	<b>(420,874)</b>	<b>(37,707,911)</b>
<b>Carrying Values at 30 June 2016</b>	<b>1,729,223,785</b>	<b>9,381,198,719</b>	<b>2,574,227,595</b>	<b>650,056,058</b>	<b>14,334,706,157</b>
<b>Summary - Carrying Values at 30 June 2016</b>					
Summary - Cost	1,941,379,952	14,289,229,291	3,295,524,297	1,351,900,715	20,878,034,255
Summary - Accumulated Depreciation	(212,156,167)	(4,908,030,572)	(721,296,702)	(701,844,657)	(6,543,328,098)
	<b>1,729,223,785</b>	<b>9,381,198,719</b>	<b>2,574,227,595</b>	<b>650,056,058</b>	<b>14,334,706,157</b>

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

48 PROPERTY, PLANT AND EQUIPMENT RECONCILIATION (CONTINUED)  
MUNICIPALITY

Reconciliation of Carrying Value	Land & Buildings	Infrastructure	Community	Other	Total
<b>Restated Carry Value 1 July 2016</b>					
Cost	1,935,900,042	14,289,229,291	3,295,524,297	1,348,525,888	20,869,179,518
Transfers/Adjustments - Costs	-	-	-	-	-
Restatement - Cost	-	-	-	-	-
Disposal/Impairment	-	-	56,900	-	56,900
Transfers/Adjustments - Depreciation	-	-	56,900	-	56,900
Accumulated Depreciation	(212,100,796)	(4,908,030,572)	(721,353,602)	(700,542,784)	(6,542,027,754)
	<b>1,723,799,246</b>	<b>9,381,198,719</b>	<b>2,574,227,595</b>	<b>647,983,104</b>	<b>14,327,208,664</b>
<b>Movement during the year ended 30 June 2017</b>					
Acquisition	78,319,569	1,183,996,847	93,878,647	(11,214,076)	1,344,980,987
Transfers / Adjustments - Cost	(1,780,453)	12,258,756	(3,393,128)	(1,038,549)	6,046,626
Transfers / Adjustment - Depreciation	855,677	4,681,489	896,617	263,510	6,697,293
Depreciation	(30,789,535)	(402,778,126)	(105,754,782)	(49,066,575)	(588,389,018)
	<b>46,605,258</b>	<b>798,158,966</b>	<b>(14,372,646)</b>	<b>(61,055,690)</b>	<b>769,335,888</b>
<b>Carry Value of Disposals/Impairments during the year ended 30 June 2017</b>					
Cost	(980,000)	-	(409,564)	(3,520,220)	(4,909,784)
Depreciation	-	-	224,484	3,520,220	3,744,704
	<b>(980,000)</b>	<b>-</b>	<b>(185,080)</b>	<b>-</b>	<b>(1,165,080)</b>
<b>Carrying Values at 30 June 2017</b>	<b>1,769,424,504</b>	<b>10,179,357,685</b>	<b>2,559,669,869</b>	<b>586,927,414</b>	<b>15,095,379,472</b>
<b>Summary - Carrying Values at 30 June 2017</b>					
Summary - Cost	2,011,459,158	15,485,484,894	3,385,600,252	1,332,753,043	22,215,297,347
Summary - Accumulated Depreciation	(242,034,654)	(5,306,127,209)	(825,930,383)	(745,825,629)	(7,119,917,875)
	<b>1,769,424,504</b>	<b>10,179,357,685</b>	<b>2,559,669,869</b>	<b>586,927,414</b>	<b>15,095,379,472</b>

Reconciliation of Carrying Value	Land & Buildings	Infrastructure	Community	Other	Total
<b>Restated Carry Value 1 July 2015</b>					
Cost	1,846,654,821	13,199,906,460	3,217,593,698	1,166,959,156	19,431,114,135
Transfers/Adjustments - Costs	-	-	-	-	-
Restatement - Cost	(2,449,726)	11,577,629	6,801,785	(765,336)	15,164,352
Disposal/Impairment	-	-	-	-	-
Transfers/Adjustments - Depreciation	-	-	-	-	-
Accumulated Depreciation	(182,370,553)	(4,511,126,771)	(619,570,238)	(653,496,310)	(5,966,563,872)
	<b>1,661,834,542</b>	<b>8,700,357,318</b>	<b>2,604,825,245</b>	<b>512,697,510</b>	<b>13,479,714,615</b>
<b>Movement during year ended 30 June 2016</b>					
Acquisition	56,243,042	1,084,870,777	73,316,727	78,238,706	1,292,669,252
Transfers / Adjustments - Cost	57,908,908	22,320,791	2,050,029	107,455,456	189,735,184
Transfers / Adjustment - Depreciation	-	-	-	76,409,040	76,409,040
Depreciation	(29,836,386)	(412,699,894)	(104,678,502)	(126,426,454)	(673,641,236)
	<b>84,315,564</b>	<b>694,491,674</b>	<b>(29,311,746)</b>	<b>135,676,748</b>	<b>885,172,240</b>
<b>Carry Value of Disposals/Impairments during the year ended 30 June 2016</b>					
Cost	(22,457,003)	(29,446,366)	(4,237,942)	(3,362,094)	(59,503,405)
Depreciation	106,143	15,796,093	2,952,038	2,970,940	21,825,214
	<b>(22,350,860)</b>	<b>(13,650,273)</b>	<b>(1,285,904)</b>	<b>(391,154)</b>	<b>(37,678,191)</b>
<b>Carrying Values at 30 June 2016</b>	<b>1,723,799,246</b>	<b>9,381,198,719</b>	<b>2,574,227,595</b>	<b>647,983,104</b>	<b>14,327,208,664</b>
<b>Summary - Carrying Values at 30 June 2016</b>					
Summary - Cost	1,935,900,042	14,289,229,291	3,295,524,297	1,348,525,888	20,869,179,518
Summary - Accumulated Depreciation	(212,100,796)	(4,908,030,572)	(721,296,702)	(700,542,784)	(6,541,970,854)
	<b>1,723,799,246</b>	<b>9,381,198,719</b>	<b>2,574,227,595</b>	<b>647,983,104</b>	<b>14,327,208,664</b>



NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 49 HERITAGE ASSETS RECONCILIATION

## ECONOMIC ENTITY

Reconciliation of Carrying Value	Heritage Assets
<b>Restated Carry Value 1 July 2016</b>	
Cost	206,087,322
Transfers/Adjustments	-
Restatement - Cost	-
Disposal	-
Accumulated Depreciation	-
	<b>206,087,322</b>
<b>Movement during the year ended 30 June 2017</b>	
Acquisition	1,913,685
Transfers / Adjustment	16,221,624
Impairment	-
	<b>18,135,309</b>
<b>Impairment value during the year ended 30 June 2017</b>	
Cost	-
Amortisation	-
	-
<b>Carrying Values at 30 June 2017</b>	<b>224,222,631</b>
<b>Summary - Carrying Values at 30 June 2017</b>	
Summary - Cost	224,222,631
Summary - Accumulated Impairment	-
	<b>224,222,631</b>

Reconciliation of Carrying Value	Heritage Assets
<b>Restated Carry Value 1 July 2015</b>	
Cost	205,531,393
Transfers/Adjustments	-
Restatement - Cost	-
Disposal	-
Accumulated Depreciation	-
	<b>205,531,393</b>
<b>Movement during year ended 30 June 2016</b>	
Acquisition	617,502
Transfers / Adjustment	4,576,824
Impairment	-
	<b>5,194,326</b>
<b>Impairment value during year ended 30 June 2016</b>	
Cost	(4,638,397)
Amortisation	-
	<b>(4,638,397)</b>
<b>Carrying Values at 30 June 2016</b>	<b>206,087,322</b>
<b>Summary - Carrying Values at 30 June 2016</b>	
Summary - Cost	206,087,322
Summary - Accumulated Impairment	-
	<b>206,087,322</b>

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

49 HERITAGE ASSETS RECONCILIATION (CONTINUED)  
MUNICIPALITY

Reconciliation of Carrying Value	Heritage Assets
<b>Restated Carry Value 1 July 2016</b>	
Cost	205,836,822
Transfers/Adjustments	-
Restatement - Cost	-
Disposal	-
Accumulated Depreciation	-
	<b>205,836,822</b>
<b>Movement during the year ended 30 June 2017</b>	
Acquisition	1,913,685
Transfers / Adjustment	16,221,624
Impairment	-
	<b>18,135,309</b>
<b>Impairment value during the year ended 30 June 2017</b>	
Cost	-
Amortisation	-
	-
<b>Carrying Values at 30 June 2017</b>	<b>223,972,131</b>
<b>Summary - Carrying Values at 30 June 2017</b>	
Summary - Cost	223,972,131
Summary - Accumulated Impairment	-
	<b>223,972,131</b>

Reconciliation of Carrying Value	Heritage Assets
<b>Restated Carry Value 1 July 2015</b>	
Cost	205,280,893
Transfers/Adjustments	-
Restatement - Cost	-
Disposal	-
Accumulated Depreciation	-
	<b>205,280,893</b>
<b>Movement during year ended 30 June 2016</b>	
Acquisition	617,502
Transfers / Adjustment	4,576,824
Impairment	-
	<b>5,194,326</b>
<b>Impairment value during year ended 30 June 2016</b>	
Cost	(4,638,397)
Amortisation	-
	<b>(4,638,397)</b>
<b>Carrying Values at 30 June 2016</b>	<b>205,836,822</b>
<b>Summary - Carrying Values at 30 June 2016</b>	
Summary - Cost	205,836,822
Summary - Accumulated Impairment	-
	<b>205,836,822</b>

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
 NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 50 INTANGIBLE ASSETS RECONCILIATION

## ECONOMIC ENTITY

Reconciliation of Carrying Value	Intangible Assets
<b>Restated Carry Value 1 July 2016</b>	
Cost	576,977,822
Transfers/Adjustments	-
Restatement - Amortisation	-
Impairment	-
Accumulated Amortisation	(522,797,451)
	<b>54,180,371</b>
<b>Movement during the year ended 30 June 2017</b>	
Acquisition	17,691,531
Transfers/Adjustments	4,196,049
Transfers/Adjustments	544,698
Amortisation	(17,463,677)
	<b>4,968,601</b>
<b>Impairment/ Disposal value during the year ended 30 June 2017</b>	
Cost	-
Amortisation	0
	-
<b>Carrying Values at 30 June 2017</b>	<b>59,148,972</b>
<b>Summary - Carrying Values at 30 June 2017</b>	
Summary - Cost	599,410,100
Summary - Accumulated Amortisation	(540,261,128)
	<b>59,148,972</b>

Reconciliation of Carrying Value	Intangible Assets
<b>Restated Carry Value 1 July 2015</b>	
Cost	579,837,666
Transfers/Adjustments	-
Restatement - Amortisation	-
Impairment	-
Accumulated Amortisation	(435,338,639)
	<b>144,499,027</b>
<b>Movement during year ended 30 June 2016</b>	
Acquisition	47,026,785
Adjustment	-
Amortisation	(120,115,667)
	<b>(73,088,882)</b>
<b>Impairment value during year ended 30 June 2016</b>	
Cost	(49,886,629)
Amortisation	32,656,855
	<b>(17,229,774)</b>
<b>Carrying Values at 30 June 2016</b>	<b>54,180,371</b>
<b>Summary - Carrying Values at 30 June 2016</b>	
Summary - Cost	576,977,822
Summary - Accumulated Amortisation	(522,797,451)
	<b>54,180,371</b>

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

50 INTANGIBLE ASSETS RECONCILIATION (CONTINUED)  
MUNICIPALITY

Reconciliation of Carrying Value	Intangible Assets
<b>Restated Carry Value 1 July 2016</b>	
Cost	576,650,804
Transfers/Adjustments	-
Restatement - Amortisation	-
Impairment	-
Accumulated Amortisation	(522,559,011)
	<b>54,091,793</b>
<b>Movement during the year ended 30 June 2017</b>	
Acquisition	17,691,531
Transfers/Adjustments	4,196,049
Transfers/Adjustments	544,698
Amortisation	(17,411,091)
	<b>5,021,187</b>
<b>Impairment/ Disposal value during the year ended 30 June 2017</b>	
Cost	-
Amortisation	0
	-
<b>Carrying Values at 30 June 2017</b>	<b>59,112,980</b>
<b>Summary - Carrying Values at 30 June 2017</b>	
Summary - Cost	599,083,082
Summary - Accumulated Amortisation	(539,970,102)
	<b>59,112,980</b>

Reconciliation of Carrying Value	Intangible Assets
<b>Restated Carry Value 1 July 2015</b>	
Cost	579,512,808
Transfers/Adjustments	-
Restatement - Amortisation	-
Impairment	-
Accumulated Amortisation	(435,157,978)
	<b>144,354,830</b>
<b>Movement during year ended 30 June 2016</b>	
Acquisition	47,017,955
Adjustment	-
Amortisation	(120,055,830)
	<b>(73,037,875)</b>
<b>Impairment value during year ended 30 June 2016</b>	
Cost	(49,879,959)
Amortisation	32,654,797
	<b>(17,225,162)</b>
<b>Carrying Values at 30 June 2016</b>	<b>54,091,793</b>
<b>Summary - Carrying Values at 30 June 2016</b>	
Summary - Cost	576,650,804
Summary - Accumulated Amortisation	(522,559,011)
	<b>54,091,793</b>

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

51 INVESTMENT PROPERTY RECONCILIATION  
ECONOMIC ENTITY AND MUNICIPALITY

Reconciliation of Carrying Value	Investment Property
<b>Restated Carry Value 1 July 2016</b>	
Cost	253,810,809
Restatement - Cost	-
Transfers/Adjustments	-
Disposal	-
Restatement - Depreciation	-
Accumulated Depreciation	(56,530,544)
	<b>197,280,265</b>
<b>Movement during the year ended 30 June 2017</b>	
Acquisition	2,422,240
Transfers/Adjustments	-
Transfers / Adjustment	-
Depreciation	(6,071,310)
	<b>(3,649,070)</b>
<b>Carry Value of Disposals for the year ended 30 June 2017</b>	
Cost	-
Depreciation	-
	-
<b>Carrying Values at 30 June 2017</b>	<b>193,631,195</b>
<b>Summary - Carrying Values at 30 June 2017</b>	
Summary - Cost	256,233,049
Summary - Accumulated Depreciation	(62,601,854)
	<b>193,631,195</b>

Reconciliation of Carrying Value	Investment Property
<b>Restated Carry Value 1 July 2015</b>	
Cost	248,623,193
Restatement - Cost	-
Transfers/Adjustments	-
Disposal	-
Restatement - Depreciation	-
Accumulated Depreciation	(50,454,308)
	<b>198,168,885</b>
<b>Movement during year ended 30 June 2016</b>	
Acquisition	5,132,881
Transfers/Adjustments	54,735
Depreciation	(6,076,236)
	<b>(888,620)</b>
<b>Carry Value of Disposals during year ended 30 June 2016</b>	
Cost	-
Depreciation	-
	-
<b>Carrying Values at 30 June 2016</b>	<b>197,280,265</b>
<b>Summary - Carrying Values at 30 June 2016</b>	
Summary - Cost	253,810,809
Summary - Accumulated Depreciation	(56,530,544)
	<b>197,280,265</b>

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
**NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

**52 FINANCIAL INSTRUMENTS**

Financial instruments are classified into the following categories:

Financial assets: At Amortised Cost  
 Financial liabilities: At amortised cost  
 Financial Assets: At Fair Value

The classification of financial instruments is determined at initial recognition based on the purpose for which the financial assets are acquired or liabilities are assumed.

The amounts relating to financial instruments reflected below approximates fair value

ECONOMIC ENTITY	2017			Restated 2016		
	Financial Instruments at Amortised Cost	Non financial assets	Total	Financial Instruments at Amortised Cost	Non financial assets	Total
	R	R	R	R	R	R
<b>ASSETS</b>						
Property, Plant and Equipment		15,102,725,907	15,102,725,907		14,334,706,157	14,334,706,157
Heritage Assets		224,222,631	224,222,631		206,087,322	206,087,322
Intangible Assets		59,148,972	59,148,972		54,180,371	54,180,371
Investment Property		193,631,195	193,631,195		197,280,265	197,280,265
Long-term Receivables - Exchange Transactions	35,228,696		35,228,696	13,346,342		13,346,342
Long-term Receivables - Non-exchange Transactions		28,830,648	28,830,648		10,960,479	10,960,479
Inventory		198,395,729	198,395,729		145,373,625	145,373,625
Consumer debtors - Exchange Transactions	1,215,010,058		1,215,010,058	1,037,542,429		1,037,542,429
Consumer debtors - Non-exchange Transactions		329,060,406	329,060,406		229,542,790	229,542,790
Other Debtors	398,558,388		398,558,388	439,456,709		439,456,709
VAT Refund		25,932,771	25,932,771		13,217,292	13,217,292
VAT Receivable		0	0		0	0
Current portion of long-term receivables	20		20	80		80
Short-term investment deposits (excluding Sanlam Shares)	1,344,722,731		1,344,722,731	1,365,337,861		1,365,337,861
Bank balances and cash	285,651,012		285,651,012	247,167,624		247,167,624
	<b>3,279,170,905</b>	<b>16,161,948,259</b>	<b>19,441,119,164</b>	<b>3,102,851,045</b>	<b>15,191,348,301</b>	<b>18,294,199,346</b>

ECONOMIC ENTITY	2017			Restated 2016		
	Financial Instruments at Amortised Cost	Non financial liabilities	Total	Financial Instruments at Amortised Cost	Non financial liabilities	Total
	R	R	R	R	R	R
<b>LIABILITIES</b>						
Long-term Liabilities	1,289,568,185		1,289,568,185	1,376,718,616		1,376,718,616
Deferred Income		889,232	889,232		865,885	865,885
Employee Benefit Obligation		1,989,244,328	1,989,244,328		1,472,243,701	1,472,243,701
Non-current Provisions		368,512,219	368,512,219		462,203,446	462,203,446
Consumer deposits	131,340,356		131,340,356	123,959,190		123,959,190
Current Employee Benefit Obligation		162,944,588	162,944,588		77,963,496	77,963,496
Current Provisions		92,188,982	92,188,982		47,776,422	47,776,422
Creditors	1,751,142,589		1,751,142,589	1,701,971,576		1,701,971,576
VAT Payable		60,875,788	60,875,788		12,024,464	12,024,464
Unspent Conditional Grants and Receipts		47,199,450	47,199,450		200,573,914	200,573,914
Current Portion of Long-term Liabilities	87,089,172		87,089,172	95,438,884		95,438,884
	<b>3,259,140,302</b>	<b>2,721,854,587</b>	<b>5,980,994,889</b>	<b>3,298,088,266</b>	<b>2,273,651,328</b>	<b>5,571,739,594</b>

Net Assets		13,462,775,826	13,462,775,826		12,724,929,623	12,724,929,623
<b>Financial Asset at Fair Value</b>				<b>Financial Asset at Fair Value</b>		
Sanlam Shares - Valued at the open market value	2,651,551		(2,651,551)	2,469,871		(2,469,871)
	<b>22,682,156</b>	<b>(22,682,156)</b>	<b>0</b>	<b>(192,767,350)</b>	<b>192,767,350</b>	<b>0</b>

	2016	Restated 2015
<b>Financial Asset at amortised cost</b>		
Opening balance	3,102,851,045	2,758,325,177
Net other movements	176,319,860	344,525,868
<b>Closing balance</b>	<b>3,279,170,905</b>	<b>3,102,851,045</b>
<b>Financial liabilities at amortised cost</b>		
Opening balance	3,298,088,266	3,453,049,253
Net other movements	(38,947,964)	(154,960,987)
<b>Closing balance</b>	<b>3,259,140,302</b>	<b>3,298,088,266</b>

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 52 FINANCIAL INSTRUMENTS (CONTINUED)

MUNICIPALITY	2016			Restated 2015		
	Financial Instruments at Amortised Cost	Non financial assets	Total	Financial Instruments at Amortised Cost	Non financial assets	Total
	R	R	R	R	R	R
<b>ASSETS</b>						
Property, Plant and Equipment		15,095,379,472	15,095,379,472		14,327,208,664	14,327,208,664
Heritage Assets		223,972,131	223,972,131		205,836,822	205,836,822
Intangible Assets		59,112,980	59,112,980		54,091,793	54,091,793
Investment Property		193,631,195	193,631,195		197,280,265	197,280,265
Long-term Receivables - Exchange Transactions	35,228,696		35,228,696	13,346,342		13,346,342
Long-term Receivables - Non-exchange Transactions		28,830,648	28,830,648		10,960,479	10,960,479
Inventory		197,867,287	197,867,287		145,373,625	145,373,625
Consumer debtors - Exchange Transactions	1,215,010,058		1,215,010,058	1,037,542,429		1,037,542,429
Consumer debtors - Non-exchange Transactions		329,060,406	329,060,406		229,542,790	229,542,790
Other Debtors	436,215,934		436,215,934	461,871,231		461,871,231
VAT Refund		25,932,771	25,932,771		10,742,805	10,742,805
VAT Receivable		0	0		0	0
Current portion of long-term receivables	20		20	80		80
Short-term investment deposits (excluding Sanlam Shares)	1,344,722,731		1,344,722,731	1,365,337,861		1,365,337,861
Bank balances and cash	226,774,020		226,774,020	213,067,170		213,067,170
	<b>3,257,951,459</b>	<b>16,153,786,890</b>	<b>19,411,738,349</b>	<b>3,091,165,113</b>	<b>15,181,037,243</b>	<b>18,272,202,356</b>

LIABILITIES	Financial Instruments at Amortised Cost	Non financial liabilities	Total	Financial Instruments at Amortised Cost	Non financial liabilities	Total
	R	R	R	R	R	R
	Long-term Liabilities	1,289,121,450		1,289,121,450	1,376,718,616	
Employee Benefit Obligation		1,989,244,328	1,989,244,328		1,472,243,701	1,472,243,701
Non-current Provisions		368,512,219	368,512,219		462,203,446	462,203,446
Consumer deposits	131,340,356		131,340,356	123,959,190		123,959,190
Current Employee Benefit Obligation		161,880,670	161,880,670		77,250,866	77,250,866
Current Provisions		92,188,982	92,188,982		47,776,422	47,776,422
Creditors	1,736,754,829		1,736,754,829	1,694,866,182		1,694,866,182
VAT Payable		60,148,639	60,148,639		12,024,464	12,024,464
Unspent Conditional Grants and Receipts		44,252,261	44,252,261		196,616,549	196,616,549
Current Portion of Long-term Liabilities	86,409,283		86,409,283	93,919,738		93,919,738
	<b>3,243,625,918</b>	<b>2,716,227,099</b>	<b>5,959,853,017</b>	<b>3,289,463,726</b>	<b>2,268,115,448</b>	<b>5,557,579,174</b>

Net Assets 13,454,536,883 13,454,536,883 12,717,093,053 12,717,093,053

Financial Asset at Fair Value	Financial Asset at Fair Value
Sanlam Shares - Valued at the open market value	
2,651,551	(2,651,551)
<b>16,977,094</b>	<b>(195,828,742)</b>
	<b>195,828,742</b>
	<b>0</b>

	2017	Restated 2016
<b>Financial Asset at amortised cost</b>		
Opening balance	3,091,165,113	2,750,967,889
Net other movements	166,786,346	340,197,224
<b>Closing balance</b>	<b>3,257,951,459</b>	<b>3,091,165,113</b>
<b>Financial liabilities at amortised cost</b>		
Opening balance	3,289,463,726	3,445,084,923
Net other movements	(45,837,808)	(155,621,197)
<b>Closing balance</b>	<b>3,243,625,918</b>	<b>3,289,463,726</b>

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

**53 EXPLANATION FOR OPERATING VARIANCES: ECONOMIC ENTITY AND MUNICIPALITY**

**APPROVED ORIGINAL BUDGET VS APPROVED FINAL BUDGET:**

In terms of GRAP 24.27 the changes between the approved original budget and approved final budget are as a consequence of reallocations within the approved original budget and the inclusion of the roll-over of unspent conditional grants as at 30 June 2015 as approved by National Treasury.

The Original Budget was approved on 07 June 2016 for the 2016/17 financial year (01 July 2016 to 30 June 2017), and the Final Budget was approved on 23 February 2017.

NMBM uses the accrual basis of accounting for its Budget.

The reconciliation of the Original approved Budget and Final Budget and Actual amounts are shown on the face of the Statement of Financial Performance, with the reasons in variances explained below.

**ACTUAL VERSUS APPROVED FINAL BUDGET (REVENUE AND EXPENDITURE)**

**Explanations of Significant Variances greater than 10% versus Budget - The 10% threshold was considered to be the best indicator to meet performance.**

**1 Interest earned - Investments**

Interest increased due to strict cashflow management.

**2 Licences and Permits**

Due to the ad hoc nature of this income source, accurate income projections are not possible.

**3 Gains on disposal of Property, Plant and Equipment**

Vehicles which have been sold on auction.

**4 Interest raised - Outstanding Debtors**

Interest increased due to non payment of outstanding debt by consumers.

**5 Government Grants and Subsidies - Operating**

Due to National Government Policy change relating to the housing top structure allocation from National Government directly to HAD.

**6 Public Contributions**

Underspending due to project delays.

**7 Other Income - MBDA**

Due to the ad hoc nature of this income source, accurate income projections are not possible.

**8 Dividends received**

The dividend income relates to the Sanlam shares.

**9 Employee Related Costs**

The overspending is due to the actuarial provision raised for long service bonuses, which has been calculated on new method - refer note 41.

**10 Impairment - receivables**

The adjusted estimates (2016/17) of R687 million were accurately estimated as actuals for the year amounted to about R600 million, however the provision for bad debts were decreased after re-assessment

**11 Grants and Subsidies Paid**

Due to the underspending on the allocations given to the entity - MBDA.

**12 General Expenses**

Due to National Government Policy change relating to the housing top structure allocation from National Government directly to HAD.

**13 Repairs and Maintenance**

Due to underspending on maintenance for sewers and outfalls, computer equipment, plant and machinery, GIS software, meters, roads and stormwater and buildings.

**14 Depreciation**

The underspending is due to high anticipated budget

**15 Loss on disposal of property, plant and equipment**

Due to the ad hoc nature of this expenditure, accurate projections are not possible.



**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
**NOTES TO THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

**54 EXPLANATION FOR CAPITAL VARIANCES: ECONOMIC ENTITY AND MUNICIPALITY**

**APPROVED ORIGINAL BUDGET VS APPROVED FINAL BUDGET:**

In terms of GRAP 24.27 the changes between the approved original budget and approved final budget are as a consequence of reallocations within the approved original budget and the inclusion of the roll-over of unspent conditional grants as at 30 June 2015 as approved by National Treasury.

The Original Budget was approved on 07 June 2016 for the 2016/17 financial year (01 July 2016 to 30 June 2017), and the Final Budget was approved on 23 February 2017.

Council on its meeting held on Thursday, 24 August 2017, concluded the meeting without dealing with four items numbered 33, 34, 35 and 36 of the Agenda. These items were dealing specifically with budget amendments matters that already had been signed off by the Executive Mayor for implementation and as such all the changes were already implemented in the NMBM's GL System. The amount of the budget amendment item is R97 478 700 of which R3m affects Operating Budget and the remainder affects Capital Budget.

**See below reconciliation between the Budget and the Actual expenditure:**

<b>ACTUAL VERSUS ADJUSTMENTS BUDGET (ACQUISITION OF ASSETS)</b>	<b>2017</b>	<b>Adjustments</b>	<b>Additions / Under</b>	<b>Variance</b>	<b>% Variance with</b>	<b>Explanation of Variances greater than 10 %</b>
		<b>Budget</b>	<b>Construction</b>		<b>Adjustments</b>	
					<b>Budget</b>	
Infrastructure & Engineering - Roads & Storm water	266,588,259		254,427,656	12,160,603	5	
Human Settlements	199,100,000		205,226,630	(6,126,630)	-3	
Economic Development, Tourism & Agriculture	8,000,000		7,506,821	493,179	6	
Recreational and Cultural Service	60,557,600		50,948,384	9,609,216	16	The projects that contributed to the underspending was the Kwanobuhle Sports Complex and the AstroTurf Surfaces. The AstroTurf project experienced delays in terms the appointment of a Social Facilitator. Roting in the areas led to delays in starting the project. The Kwanobuhle Sports Complex project experienced delays in the procurement process. The letter of appointment was only issued to the Contractor in May 2017.
Safety & Security	16,611,000		16,494,937	116,063	1	
Budget & Treasury	61,316,000		29,783,524	31,532,476	51	The variance is mainly attributable to the Systems Enhancements (EMS) Capital Project and the Acquisition of Microsoft Licences. A decision was taken by the Project Manager to change the payment structure on this project. This meant that instead of monthly payments, the Service Provider would be paid based on milestones which ultimately changed the anticipated cash flow. The unspent funds will be carried over to the 2017/18 financial year to ensure that sufficient budget exists in order to honour all outstanding commitments.
Public Health	73,146,300		67,003,292	6,143,008	8	The variance is mainly attributable to the Purchase of Refuse Compactors. Orders were placed for 6 vehicles and only 4 were delivered during the financial year due to the high demand by other Municipalities
Corporate Services	21,400,000		23,005,651	(1,605,651)	-8	
Sanitation Service	303,500,000		243,900,448	59,599,552	20	R45,9 million of the Original Budget allocation was reduced from the Sanitation Capital Budget and redistributed to other Directorates via Budget Amendments signed by the Executive Mayor. The total expenditure for this Directorate is now 96.21%
Water Service	175,550,877		202,103,451	(26,552,574)	-15	A budget amendment of R22.4 million was approved by the Executive Mayor. This was brought onto the budget after 2016/17 Adjustments Budget was approved. The total expenditure for this Directorate is now 100%
Strategic Programmes	19,203,457		18,660,551	542,906	3	This variance is due to work stoppages by the community during the implementation of the project. The contractor withdrew on 15 June 2017. New contractor was appointed on 23 June 2017.
Executive and Council	8,136,850		9,648,290	(1,511,440)	-19	National Treasury approved a carry-over for the Integrated City Development Grant. This was brought onto the budget after the 2016/17 Adjustments Budget was approved. The total expenditure for this Directorate is now 100%
Electricity & Energy	241,243,754		301,576,125	(60,332,371)	-25	A budget amendment of was approved by Council for increased Public Contribution Funding as well as additional USDG Funding. This was brought onto the budget after 2016/17 Adjustments Budget was approved. The total expenditure for this Directorate is now 98%
NMBM Stadium	4,865,000		-	4,865,000	100	This funding was provided for the purchase of Vehicles, Computer and office equipment and CCTV cameras. The funds were unable to be spent due to the new Stadium Operator Agreement between NMBM and MBDA not being concluded and signed. The SCM process cannot not be started until this agreement is concluded. The unspent funds will be carried over to the procure the necessary goods and equipment
		<b>1,459,219,097</b>	<b>1,430,285,760</b>	<b>28,933,337</b>	<b>2</b>	
<b>CONTROLLED ENTITIES</b>						
Mandela Bay Development Agency	1,503,728		636,339	867,389	58	Less was spent then initially anticipated, therefore resulting in a saving.
<b>ECONOMIC ENTITY</b>		<b>1,460,722,825</b>	<b>1,430,922,099</b>	<b>29,800,726</b>		

NOTE 55.1  
ECONOMIC ENTITY: ANALYSIS OF PROPERTY, PLANT & EQUIPMENT AS AT 30 JUNE 2017

	COST						ACCUMULATED DEPRECIATION								Carrying Value	
	Opening Balance	Transfers / Adjustments/	Take-On	Acquisitions	Disposals	Impairment	Closing Balance	Opening Balance	Re-statement	Re-stated Opening Balance	Transfers / Adjustments/Take-On	Additions	Disposals	Impairment		Closing Balance
<b>Land &amp; Buildings</b>																
Buildings	821,698,028	(1,002,457)	2,990,420	79,782,870			903,468,861	212,100,797		212,100,797	(855,677)	30,789,535			242,034,655	661,434,206
Land	1,114,202,015	(777,998)	(4,453,721)		980,000		1,107,990,298									1,107,990,298
	<b>1,935,900,043</b>	<b>-1,780,453</b>	<b>-1,463,301</b>	<b>79,782,870</b>	<b>980,000</b>		<b>2,011,459,159</b>	<b>212,100,797</b>		<b>212,100,797</b>	<b>(855,677)</b>	<b>30,789,535</b>			<b>242,034,655</b>	<b>1,769,424,504</b>
<b>Infrastructure Assets</b>																
Roads, Sidewalks & Stormwater																
Network	5,840,937,110	5,192,647	14,716,426	317,358,997			6,178,205,180	2,149,698,151		2,149,698,151	2,630,088	184,617,488			2,336,945,727	3,841,259,452
Beach Developments	62,740,699	-		2,620,557			65,361,256	12,710,097				1,439,884			14,149,981	51,211,275
Electricity Reticulation & Supply	2,706,885,125	(544,455)		233,312,066			2,939,652,736	954,941,198		954,941,198	128,954	57,202,065			1,012,272,217	1,927,380,519
Fencing	77,088,122	1,005,614		9,358,198			87,451,934	22,702,343		22,702,343	78,180	4,504,551			27,285,074	60,166,860
Sewerage Mains & Purification Works	2,364,395,291	(44,981)		255,035,165			2,619,385,475	899,001,561		899,001,561	(9,165,965)	68,235,346			958,070,942	1,661,314,533
Waste Disposal Facilities	30,814,232	-		11,708,545			42,522,777	1,359,462		1,359,462		318,250			1,677,712	40,845,065
Water Supply & Reticulation	1,988,771,971	(71,268)		243,389,003			2,232,089,706	685,393,197		685,393,197	1,604,293	58,555,276			745,552,765	1,486,536,941
Dams & Treatment Works	1,217,596,742	116,249		96,497,890			1,314,210,881	182,224,563		182,224,563	42,960	27,340,676			209,608,199	1,104,602,682
Wi-Fi Infrastructure	-	6,604,949					6,604,949	-		-		564,590			564,590	6,040,359
	<b>14,289,229,292</b>	<b>12,258,756</b>	<b>14,716,426</b>	<b>1,169,280,421</b>			<b>15,485,484,895</b>	<b>4,908,030,572</b>		<b>4,908,030,572</b>	<b>(4,681,489)</b>	<b>402,778,126</b>			<b>5,306,127,208</b>	<b>10,179,357,686</b>
<b>Community Assets</b>																
Libraries	29,860,241	(3,338,341)		4,988,765			31,510,665	11,907,621		11,907,621	(650,977)	1,019,724			12,276,368	19,234,298
Library Books	76,656,092	-	5,924,243				82,580,335	23,749,559		23,749,559		3,383,563			27,133,123	55,447,212
Fire Stations	65,018,732	-		6,701,933			71,720,665	17,406,803		17,406,803		2,416,312			19,823,115	51,897,551
Cemeteries	73,203,523	-		13,153,003			86,356,526	12,190,830		12,190,830		2,220,947			14,411,777	71,944,749
Clinics	4,780,165	-		550,391			5,330,556	740,293		740,293		200,428			940,721	4,389,835
Community Centres	238,422,320	(56,900)		19,439,589			257,805,009	62,278,098	(56,900)	62,221,198		7,633,348			69,854,546	187,950,463
Public Conveniences	4,835,263	-		1,611,253			6,446,516	2,734,552		2,734,552		201,089			2,935,641	3,510,874
Swimming Pools	82,535,125	-		4,150,778			86,685,903	21,390,404		21,390,404		2,464,911			23,855,315	62,830,588
Recreational Facilities	2,655,160,206	2,113	1,337,027	36,021,664			2,692,521,010	532,599,804		532,599,804	(245,640)	84,049,005			616,403,169	2,076,117,841
Selling & Letting Schemes	65,052,631	-			409,564		64,443,067	36,355,640		36,355,640			224,484		36,296,610	26,346,457
	<b>3,295,524,297</b>	<b>(3,393,128)</b>	<b>7,261,270</b>	<b>86,617,377</b>	<b>409,564</b>		<b>3,385,600,251</b>	<b>721,353,603</b>	<b>(56,900)</b>	<b>721,296,703</b>	<b>(896,617)</b>	<b>105,754,782</b>	<b>224,484</b>		<b>825,930,384</b>	<b>2,559,669,867</b>
<b>Other Assets</b>																
Bins & Containers	10,898,176	(32,936)		4,512,346			15,377,586	4,229,067		4,229,067		1,276,735			5,505,802	9,871,784
Vehicles & Plant	529,209,424			44,171,206		3,520,221	569,860,409	408,613,906		408,613,906	(185,330)	(18,247,255)		3,520,220	386,661,100	183,199,309
Office Furniture & Fittings	209,034,191	-	2,164,015	4,045,726			215,243,932	145,091,526		145,091,526		22,421,242			167,512,768	47,731,164
Air Monitoring Facilities	1,030,124	(1,005,613)					24,511	85,430		85,430		1,634			8,884	15,626
Security Systems	10,169,715						10,169,715	10,884,135		10,884,135		(714,421)			10,169,714	1
Tip Sites	457,473,521		(89,237,506)	3,105,498			371,341,513	70,351,560		70,351,560		15,494,199			85,845,759	285,495,754
MBDA Assets	8,854,739	-		626,721	315,241		9,166,219	1,357,245		1,357,245		646,769	184,231		1,819,783	7,346,436
Computer Hardware	130,710,736		3,281,377	16,743,263			150,735,376	61,287,158		61,287,158		28,834,441			90,121,599	60,613,776
	<b>1,357,380,626</b>	<b>(1,038,549)</b>	<b>(83,792,114)</b>	<b>73,204,760</b>	<b>315,241</b>	<b>3,520,221</b>	<b>1,341,919,260</b>	<b>701,900,028</b>		<b>701,900,028</b>	<b>(263,510)</b>	<b>49,713,344</b>	<b>184,231</b>	<b>3,520,220</b>	<b>747,645,411</b>	<b>594,273,850</b>
	<b>20,878,034,258</b>	<b>6,046,626</b>	<b>(63,277,719)</b>	<b>1,408,885,428</b>	<b>1,704,805</b>	<b>3,520,221</b>	<b>22,224,463,566</b>	<b>6,543,384,999</b>	<b>(56,900)</b>	<b>6,543,328,099</b>	<b>(6,697,293)</b>	<b>589,035,787</b>	<b>408,715</b>	<b>3,520,220</b>	<b>7,121,737,658</b>	<b>15,102,725,908</b>

NOTE 55.1 (CONTINUED)  
ECONOMIC ENTITY: ANALYSIS OF INTANGIBLE ASSETS AS AT 30 JUNE 2017

	COST						ACCUMULATED AMORTISATION									Carrying Value
	Opening Balance	Transfers / Adjustments/	Take-On	Acquisitions	Disposals	Impairment	Closing Balance	Opening Balance	Re-statement	Re-stated Opening Balance	Transfers / Adjustments/ Take-On	Additions	Disposals	Impairment	Closing Balance	
<b>Intangible</b>																
MBDA Assets	327,018						327,018	238,440		238,440		52,586			291,026	35,992
Computer Software	576,650,804	4,196,049		17,691,531			598,538,384	522,559,011		522,559,011	(544,698)	17,411,091			539,425,404	59,112,980
	<b>576,977,822</b>	<b>4,196,049</b>	-	<b>17,691,531</b>	-	-	<b>598,865,402</b>	<b>522,797,451</b>	-	<b>522,797,451</b>	<b>(544,698)</b>	<b>17,463,677</b>	-	-	<b>539,716,430</b>	<b>59,148,972</b>
<b>NELSON MANDELA BAY METROPOLITAN MUNICIPALITY: ANALYSIS OF INVESTMENT PROPERTY AS AT 30 JUNE 2017</b>																
	COST						ACCUMULATED DEPRECIATION									
	Opening Balance	Transfers / Adjustments/	Take-On	Acquisitions	Disposals	Impairment	Closing Balance	Opening Balance	Re-statement	Re-stated Opening Balance	Transfers / Adjustments/ Take-On	Additions	Disposals	Impairment	Closing Balance	Carrying Value
Investment Property Land & Buildings	253,810,809			2,422,240			256,233,050	56,530,544		56,530,544		6,071,310			62,601,854	193,631,196
<b>NELSON MANDELA BAY METROPOLITAN MUNICIPALITY: ANALYSIS OF HERITAGE ASSETS AS AT 30 JUNE 2017</b>																
	COST						ACCUMULATED DEPRECIATION									
	Opening Balance	Transfers / Adjustments/	Take-On	Acquisitions	Disposals	Impairment	Closing Balance	Opening Balance	Re-statement	Re-stated Opening Balance	Transfers / Adjustments/ Take-On	Additions	Disposals	Impairment	Closing Balance	Carrying Value
Heritage Assets																
Heritage Buildings	137,561,166		16,165,430				153,726,596	-		-	-	-	-	-	-	153,726,596
Memorials & Statues	44,030,894		56,194	1,913,685			46,000,773	-		-	-	-	-	-	-	46,000,773
Land	6,655,783						6,655,783	-		-	-	-	-	-	-	6,655,783
MBDA Assets	250,500						250,500	-		-	-	-	-	-	-	250,500
Art Works	17,588,979						17,588,979	-		-	-	-	-	-	-	17,588,979
	<b>206,087,322</b>	-	<b>16,221,624</b>	<b>1,913,685</b>	-	-	<b>224,222,631</b>	-	-	-	-	-	-	-	-	<b>224,222,631</b>
Grant Totals Assets	<b>21,914,910,211</b>	<b>10,242,675</b>	<b>(47,056,095)</b>	<b>1,430,912,884</b>	<b>1,704,805</b>	<b>3,520,221</b>	<b>23,303,784,648</b>	<b>7,122,712,994</b>	<b>(56,900)</b>	<b>7,122,656,094</b>	<b>(7,241,991)</b>	<b>612,570,774</b>	<b>408,715</b>	<b>3,520,220</b>	<b>7,724,055,942</b>	<b>15,579,728,706</b>

**NOTE 55.2  
ECONOMIC ENTITY**

**WORK IN PROGRESS (WIP) / UNDER-CONSTRUCTION included in the  
acquisitions as per note 55.1**

**PROPERTY, PLANT & EQUIPMENT AS AT 30 JUNE 2017**

Details	Amount
<b>Land &amp; Buildings</b>	
Buildings	48,007,591
	<b>48,007,591</b>
<b>Infrastructure Assets</b>	
Roads, Sidewalks & Stormwater Network	128,995,578
Electricity Reticulation & Supply	120,374,538
Sewerage Mains & Purification Works	220,730,756
Waste Disposal Facilities	5,179,802
Water Supply & Reticulation	154,063,706
Dams & Treatment Works	87,943,397
	<b>717,287,779</b>
<b>Community Assets</b>	
Libraries	4,047,805
Fire Stations	2,362,393
Cemeteries	6,035,366
Community Centres	13,907,929
Swimming Pools	2,650,778
Recreational Facilities	13,034,474
	<b>42,038,745</b>
<b>Other Assets</b>	-
	<b>807,334,115</b>
<b>INTANGIBLE ASSETS AS AT 30 JUNE 2017</b>	
Details	Amount
<b>Intangible</b>	
Computer Software	16,973,402
<b>INVESTMENT PROPERTY AS AT 30 JUNE 2017</b>	
Details	Amount
<b>Investment Property</b>	
Land & Buildings	2,422,240
<b>HERITAGE ASSETS AS AT 30 JUNE 2017</b>	
Details	Amount
<b>Heritage Assets</b>	
	-
<b>Grand Total</b>	<b>826,729,757</b>

**Appendix A - Unaudited  
ECONOMIC ENTITY**

**SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2017**

2016 Actual Income	2016 Actual Expenditure	2016 Surplus/ (Deficit)		2017 Actual Income	2017 Actual Expenditure	2017 Surplus/ (Deficit)
6,359,593	231,738,762	(225,379,169)	Executive and Council	25,186,115	238,468,712	(213,282,597)
2,678,168,428	734,131,835	1,944,036,593	Budget and Treasury	2,688,505,160	1,181,075,455	1,507,429,705
34,140,514	294,798,443	(260,657,929)	Corporate Services	15,587,127	333,340,316	(317,753,189)
299,708,058	654,044,375	(354,336,317)	Public Health	318,420,222	563,068,207	(244,647,985)
479,174,232	563,318,947	(84,144,715)	Human Settlements	312,672,564	260,918,985	51,753,579
247,644,288	620,844,794	(373,200,506)	Safety and Security	226,367,345	661,276,181	(434,908,836)
147,279,003	407,714,601	(260,435,598)	Infrastructure and Engineering - R & G	178,571,656	562,264,261	(383,692,605)
996,551,649	702,719,142	293,832,507	Water	1,163,570,939	727,200,439	436,370,500
3,703,345,779	3,499,026,886	204,318,893	Electricity and Energy	3,789,504,562	3,597,783,782	191,720,780
96,492,810	107,429,022	(10,936,212)	Economic Development, Tourism and Agriculture	134,435,146	110,056,541	24,378,605
33,056,845	303,845,290	(270,788,445)	Sports, Recreation, Arts and Culture	45,607,987	304,382,188	(258,774,201)
750,763,713	425,737,858	325,025,855	Sanitation	947,459,951	458,023,766	489,436,185
50,931,696	192,150,442	(141,218,746)	NMBM Stadium	14,192,870	128,696,796	(114,503,926)
22,425,555	22,737,444	(311,889)	Special Projects	17,051,909	13,134,094	3,917,815
<u>9,546,042,163</u>	<u>8,760,237,841</u>	<u>785,804,322</u>	<b>Total</b>	<u>9,877,133,553</u>	<u>9,139,689,723</u>	<u>737,443,830</u>
			<b>Controlled Entities</b>			
100,688,489	94,675,450	6,013,039	Mandela Bay Development Agency	111,928,578	111,526,204	402,374
<u>100,688,489</u>	<u>94,675,450</u>	<u>6,013,039</u>	<b>Total Controlled Entities</b>	<u>111,928,578</u>	<u>111,526,204</u>	<u>402,374</u>
(88,230,591)	(88,230,591)	-	Less: Intercompany charges	(97,215,962)	(97,215,962)	-
<u>9,558,500,061</u>	<u>8,766,682,700</u>	<u>791,817,361</u>	<b>Total: Economic Entity before taxation</b>	<u>9,891,846,169</u>	<u>9,153,999,965</u>	<u>737,846,204</u>
-	-	-	Taxation	-	-	-
<u>9,558,500,061</u>	<u>8,766,682,700</u>	<u>791,817,361</u>	<b>Total</b>	<u>9,891,846,169</u>	<u>9,153,999,965</u>	<u>737,846,204</u>

**Appendix B - Unaudited  
ECONOMIC ENTITY**

**DISCLOSURES OF CONDITIONAL GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003 FOR THE YEAR ENDED 30 JUNE 2017**

Name of Grants	Name of Organ of State	Quarterly Receipts				Total Funds Received	Quarterly Expenditure					Reasons for Delay	Did Municipality comply with grant conditions
		July-Sept	Oct-Dec	Jan- Mar	April-June		July-Sept	Oct-Dec	Jan- Mar	April-June	Total Spent		
Financial Management Grant	NT	1,050,000	-	-	-	<b>1,050,000</b>	297,146	224,152	225,054	294,023	<b>1,040,376</b>	N / A	Yes
National Electrification Programme	DME	35,000,000	-	-	-	<b>35,000,000</b>	9,075,350	13,248,216	10,710,101	1,072,656	<b>34,106,323</b>	N / A	Yes
Urban Settlement Development Grant	DPLG	214,177,000	218,440,000	435,665,000	-	<b>868,282,000</b>	99,226,231	175,466,668	145,926,009	353,967,582	<b>774,586,489</b>	N / A	Yes
Transport or PTIS	NT	-	-	-	-	-	-	-	-	-	-	N / A	Yes
Neighbourhood Development Partnership Grant	NT	10,390,000	-	-	-	<b>10,390,000</b>	2,048,844	1,753,185	682,418	2,183,206	<b>6,667,653</b>	N / A	Yes
Neighbourhood Development Grant - Technical Assistance	NT	-	-	-	-	-	-	-	-	-	-	N / A	Yes
Energy Efficiency & Demand Side Management Grant	NT	-	-	-	-	-	-	-	-	-	-	N / A	Yes

**Appendix C - Unaudited  
ECONOMIC ENTITY  
TOTAL ACCUMULATED FUNDS FOR THE YEAR ENDED 30 JUNE 2017**

<b>TOTAL ACCUMULATED FUNDS</b>	<b>2017</b>	<b>Restated 2016</b>
	<b>R</b>	<b>R</b>
<b>Made up as follows:</b>		
Housing Development Fund	109,731,779	109,731,779
Capital Replacement Reserve	76,794,226	0
Government Grant Reserve	7,509,672,628	6,991,262,767
Capitalisation Reserve	-21,706,316	42,265,348
Donations and Public Contributions Reserves	372,713,827	336,486,788
Self-Insurance Reserve	121,256,887	102,980,606
COID Reserve	33,033,807	28,557,560
Accumulated Surplus	5,261,278,988	5,113,644,775
	<b><u>13,462,775,826</u></b>	<b><u>12,724,929,623</u></b>

**Appendix C - Unaudited  
NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
TOTAL ACCUMULATED FUNDS FOR THE YEAR ENDED 30 JUNE 2017**

<b>TOTAL ACCUMULATED FUNDS</b>	<b>2017</b>	<b>Restated 2016</b>
	<b>R</b>	<b>R</b>
<b>Made up as follows:</b>		
Housing Development Fund	109,731,779	109,731,779
Capital Replacement Reserve	76,794,226	0
Government Grant Reserve	7,509,672,628	6,991,262,767
Capitalisation Reserve	-21,706,316	42,265,348
Donations and Public Contributions Reserves	372,713,827	336,486,788
Self-Insurance Reserve	121,256,887	102,980,606
COID Reserve	33,033,807	28,557,560
Accumulated Surplus	5,253,040,045	5,105,808,205
	<b><u>13,454,536,883</u></b>	<b><u>12,717,093,053</u></b>

## **1. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE**

These Consolidated Financial Statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act (Act No 56 of 2003). In addition, these Consolidated Financial Statements include mandatory disclosures in accordance with the Municipal Finance Management Act (Act No 56 of 2003) and related regulations.

The Consolidated Financial Statements are prepared on the accrual basis of accounting and the transactions, assets and liabilities included in the financial statements are measured at historical cost unless specified otherwise.

With respect to accounting standards for material transactions, events or conditions not covered by Directive 5, the Economic Entity has developed accounting policies in accordance with paragraphs 8, 10 and 11 of GRAP 3, as read with Directive 5.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's Consolidated Financial Statements, unless explicitly stated.

New standards now effective but not yet implemented:

<b>Standard number</b>	<b>Standard name</b>	<b>Effective date from (if applicable)</b>
GRAP 18	Segment Reporting	01 April 2016

**Note:** Municipalities, municipal entities, trading entities, Parliament and the Provincial Legislatures are not required to apply or early adopt GRAP 18 *Segment Reporting* as the Minister of Finance has not yet determined the effective date for application by these entities.

### **1.1 CONSOLIDATED FINANCIAL STATEMENTS**

The Economic Entity's financial statements incorporate the financial statements of the parent entity, Nelson Mandela Bay Municipality and all its municipal entities, presented as a single entity and consolidated at the same reporting date as the parent entity.

The controlled entities have the same reporting date and reporting period as the controlling entity.

All inter-entity transactions and balances, unrealised gains and losses within the Economic Entity are eliminated upon consolidation. Where appropriate, the accounting policies of controlled entities conform to the policies adopted by the Economic Entity.

### **1.2 MUNICIPAL ENTITIES**

Municipal entities are all controlled entities over which the Economic Entity has ownership control or effective control to govern the financial and operating policies of such controlled entities to benefit from its activities.

## **2. PRESENTATION AND FUNCTIONAL CURRENCY**

These Consolidated Financial Statements are presented in South African Rand.

The functional currency of the Economic Entity is South African Rand. Financial values are rounded to the nearest one Rand.

## **3. GOING CONCERN ASSUMPTION**

These Consolidated Financial Statements have been prepared on a going concern basis.



#### **4. COMPARATIVE INFORMATION**

##### **4.1 Current year comparatives (Budget):**

In accordance with GRAP 1 and 24, the Budget information has been presented on the face of the Statement of Financial Performance in these Consolidated Financial Statements.

##### **4.2 Prior year comparatives:**

When the presentation or classification of items in the Consolidated Financial Statements are amended, prior period comparative amounts are reclassified and restated. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

Where there has been a change in accounting policy in the current year and the standards require retrospective adjustment, the adjustment is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

The nature and reasons for the reclassifications and restatements are disclosed in Note 40 to the Consolidated Financial Statements.

#### **5. STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE**

##### **STANDARDS**

The following revised and newly approved Standards of GRAP have been approved and issued by the Accounting Standards Board but only become effective in the future or have not been given an effective date by the Minister of Finance. The Economic Entity has not early-adopted any new Standards or revised Standards of GRAP but has in some cases referred to them for guidance in developing appropriate accounting policies in accordance with the requirements of Directive 5: Determining the GRAP Reporting Framework.

<b>Standard number</b>	<b>Standard name</b>	<b>Effective date (if applicable)</b>
GRAP 20	Related Party Disclosures	No effective date
GRAP 32	Service Concession Arrangements - Grantor	No effective date
GRAP 34	Separate Financial Statements	No effective date
GRAP 35	Consolidated Financial Statements	No effective date
GRAP 38	Disclosure of Interests in Other Entities	No effective date
GRAP 108	Statutory Receivables	No effective date
GRAP 109	Accounting by Principals and Agents	No effective date

##### **GRAP 20 – Related Party Disclosures**

The objective of this standard is to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties. It is expected that adoption of this standard will result in additional disclosures.

##### **GRAP 32 - Service Concession Arrangements – Grantor**

This Standard applies to an asset used in a service concession arrangement for its entire economic life (a "whole-of-life" asset) if certain conditions are met. It is expected that adoption of this standard will not be significant.

**GRAP 34 - Separate Financial Statements**

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

**GRAP 35 – Consolidated Financial Statements**

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

**GRAP 38 - Disclosure of Interests in Other Entities**

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- (a) the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- (b) the effects of those interests on its financial position, financial performance and cash flows.

**GRAP 108 – Statutory Receivables**

This standard deals with receivables that arise from legislation, supporting regulations or similar means and require settlement by another entity in cash or another financial asset. It is expected that adoption of this standard will not be significant.

**GRAP 109 – Accounting by Principals and Agents**

This standard deals with principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. It is expected that adoption of this standard will not be significant.

**INTERPRETATIONS**

The following interpretations have been approved and issued by the Accounting Standards Board but only become effective in the future or have not been given an effective date by the Minister of Finance. These interpretations are expected to have an insignificant impact on the financial statements since they generally reflect the interpretation and principles already established under GRAP.

<b>Standard number</b>	<b>Standard name</b>	<b>Effective date (if applicable)</b>
IGRAP 17	Service concession arrangements where a grantor controls a significant residual interest in an asset	Effective date not yet determined

**6. SIGNIFICANT JUDGEMENTS**

The use of judgement, estimates and assumptions is inherent to the process of preparing consolidated financial statements. These judgements affect the amounts presented in the consolidated financial statements. Uncertainties about these estimates and assumptions could result in outcomes that require a material adjustment to the carrying amount of the relevant asset or liability in future periods.

Management has made the following significant judgement:

#### Heritage Assets

Where an asset is acquired by the Economic Entity for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an asset is acquired in exchange for a similar asset, the acquired asset is initially measured at the carrying value of the asset given up.

Where an asset is acquired in exchange for a dissimilar asset, the acquired item is initially measured at the fair value (the cost). If the acquired item's fair value is not determinable, the allocated deemed cost is the carrying amount of the asset given up.

#### Revenue from Exchange transactions

Revenue from the sale of electricity prepaid meter cards is recognised at point of sale.

#### Allowances for Credit losses

On Consumer debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the estimated future cash flows based on the historical payment trend.

### **Other key judgements**

#### Provisions and contingent liabilities

Management judgement is required when disclosing and measuring provisions and contingent liabilities. Provisions have been discounted where the effect of discounting is material. Refer to accounting policy Note 11.

#### Operating lease commitments – the Economic Entity as lessor

The Economic Entity has entered into commercial property leases on its investment property portfolio. The Economic Entity has determined that it retains all the significant risks and rewards of ownership of these properties and therefore has continued to recognise the investment properties.

#### GRAP 5 Borrowing Costs

The Economic Entity has determined that it is inappropriate to capitalise borrowing costs, as it is unable to establish a clear link between borrowing costs and numerous individual assets falling within the broader range of specific capital projects. Refer to accounting policy Note 20.

#### Management's Going Concern Assessment:

Management considered the following matters relating to the Going Concern:

On 18 June 2017 the Council adopted the 2017/18 to 2019/20 Budget. This three-year Medium Term Revenue and Expenditure Framework (MTREF) to support the on-going delivery of municipal services to residents reflected that the Budget was funded over the three-year period.

Management has thus prepared the Consolidated Financial Statements on the Going Concern basis.

## **7. SIGNIFICANT ESTIMATES AND ASSUMPTIONS**

In the process of preparing the Economic Entity's Consolidated Financial Statements, management has made the following key estimates and assumptions:

### **Presentation of a comparison of budget and actual amounts**

The Economic Entity presents a comparison of the budget amounts for which it is held publicly accountable and actual amounts as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP24. The comparison of budget and actual amounts present separately for each level of legislative oversight.

### **Provision for Rehabilitation of Refuse Landfill Sites**

The Economic Entity has an obligation to rehabilitate its landfill sites in terms of its license stipulations. Provision is made for this obligation based on the net present value of cost to rehabilitate the landfill sites in the future. The cost factors, as determined, have been applied and projected at an inflation rate of 5.1% (2016: 6.3%) and discounted to the present value:

- a) For landfill sites with a remaining operating life of less than 5 years, at the average short term borrowing cost of 11.25% (2016: 10.27%).
- b) For landfill sites with a remaining operating life of greater than 5 years, at the average long-term treasury bond rate 2.5% (2016: 2.0%).

### **Provision for Rehabilitation of Swartkops River**

The provision is in relation to the Economic Entity's obligation to address the environmental pollution of the Swartkops River. The provision is based on the estimated costs to carry out the rehabilitation work of the wetland beside the Swartkops River, which was present valued at a rate of 11.25% (2016: 10.27%). The discount rate of 11.25% represents the Economic Entity's average borrowing costs rate and is applied as a discount rate as the rehabilitation work is done on a continuous basis.

### **Pension and other post-employment benefits**

The cost of defined benefit pension plans (ex gratia pensions), other post-employment medical benefits, and the present value of the pension obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. For key assumptions, refer to Note 47 of the Consolidated Financial Statements.

### **Provision for gratuity pensions**

This obligation is in respect of the long-term liability relating to gratuities payable to employees that were not previously members of a pension fund. A management decision was made to ensure that a provision is raised from 1975.

The provision is made up of two parts namely:

- Years' service prior to 1997: number of years' service prior to 1997 multiplied by the employee fortnightly wage rate in 1997 (R533) plus
- Years services after 1997: number of years' service multiplied by the employee fortnightly wage rate in 1997 (R533) increased per annum by the average earnings interest earned on investments of 6.74% (2016: 6.48%)

### **Property, plant and equipment including Investment Properties and Intangible Assets**

The useful life of assets is based on management's estimation. Management consider the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate.

The Economic Entity maintains and acquires assets to provide a social service to the community, with no intention of disposing of the assets for any economic gain and thus residual values are determined to be nil for all assets.

### **Water inventory**

The estimation of the water stock in the reservoirs is based on the measurement of water via electronic level sensors, which determines the depth of water in the reservoirs, which is then converted into volumes based on the total capacity of the reservoir. Refer to accounting policy Note 17.

### **Amounts due to Funders of Construction Contracts**

This represents the total value of unspent conditional grant funding that has been received by the Entity and which is reflected as payable to the funders of construction contracts and other capital projects.

## **8. HOUSING DEVELOPMENT FUND**

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

The Housing Development Fund is included as one of the reserves within Accumulated Surplus.

## **9. ACCUMULATED FUNDS**

The Economic Entity maintains various internal reserves in terms of specific requirements, which include:

- Capital Replacement Reserve (CRR): Internal reserve administered within the Accumulated Surplus for control purposes
- Capitalisation Reserve (CR): Internal reserve administered within the Accumulated Surplus for control purposes
- Donations and Public Contributions Reserve: Internal reserve administered within the Accumulated Surplus for control purposes
- Self-Insurance Reserve: Internal reserve administered within the Accumulated Surplus for control purposes.
- Government Grant Reserve: Internal reserve administered within the Accumulated Surplus for control purposes.
- Compensation for Occupational Injuries and Diseases (COID) Reserve

The Economic Entity has been exempted from making contributions to the Compensation Commissioner for Occupational Injuries and Diseases in terms of Section 84 of the COID Act, but is required to maintain a reserve of R10 million. This reserve is subject to annual review by the Commissioner.

The certificate of exemption issued by the Commissioner and as prescribed by the Compensation for Occupational Injuries and Diseases Act (No. 130 of 1993), requires that the Economic Entity deposit cash and/or securities relating to COID with the Commissioner. The combined market values shall

not be less than the capitalised value of the continuing liability of the Economic Entity as at 31 December of each year.

The continuing liability is that of pensions, with the capitalised value being determined based on an actuarial determination as prescribed by the Commissioner. A COID reserve has been established to be equal to or greater than the value of the continuing liability. The Commissioner determines the market value of the securities annually and the Economic Entity is required to meet any shortfall in the aggregate value of the securities as at 31 December.

Monthly pensions are funded by allocating funds out of the COID portion of Accumulated Surplus to general Accumulated Surplus (refer to note 2).

## **10. EMPLOYEE BENEFITS**

### **Recognition and measurement**

#### **Short term employee benefits**

Remuneration to employees is recognised as an expense in the Statement of Financial Performance as services are rendered, except for non-accumulating benefits, which are recognised when the specific event occurs.

The costs of all short-term employee benefits, such as leave pay, are recognised in the period the employee renders the related service.

Short-term employee benefits are measured on an undiscounted basis.

#### **Short term compensated absences**

The expected cost of compensated absences is recognised as follows:

Accumulating compensated absence:

When employees render services that increase their entitlement to future compensated absences;  
and

Non-accumulating absences:

When absences occur.

#### **Leave pay accrual**

The liability for accumulating compensated absences is based on the total amount of leave days accumulated by employees at reporting date and on the total remuneration package of the employees.

#### **Bonus incentive and performance related payments**

The Economic Entity recognises the expected cost of performance bonus when, and only when, it has a present legal or constructive obligation to make such payments, as a result of past events and a reliable estimate of the obligation can be made.

A provision in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees is raised once the timing and amount of such provision can be reliably determined. The provision is based on the performance of each S57 employee against the performance scorecard set and agreed upon for each financial year. If on assessment of the respective S57 employees it is decided that a bonus will be paid out, the S57 employee is entitled to receive this bonus irrespective of whether they are still in the service of the Economic Entity, or not.

## **Post-employment benefits**

### **Defined benefit plans**

Defined benefit plans are post-employment benefit plans other than defined contribution plans. The cost of providing benefits under the defined benefit plans is determined separately for each plan, using the projected unit credit method. Actuarial valuations are conducted on an annual basis for each plan. In the event that an independent actuarial valuation is not performed, Management will assess whether the assumptions used in the previous valuation remain applicable. If so, the valuation will be based on the previous independent valuation. If not, an adjustment is made to take into account any changes in assumptions.

### **Recognition and measurement**

The actuarial gains or losses are recognised in the Statement of Financial Performance in the year incurred.

The past service costs are recognised as an expense immediately.

The defined benefit asset or liability comprises the present value of the defined benefit obligation (further detail is available in Note 47), less the fair value of plan assets out of which the obligations are to be settled. Plan assets are assets that are held by long-term employee benefit funds or qualifying insurance policies. Plan assets are not available to the creditors of the Economic Entity nor can they be paid directly to the Economic Entity.

Fair value is based on market price information and in the case of quoted securities; it is the published bid price. It should be noted that there are currently no plan assets.

### **Medical Aid: Continued Members**

The Economic Entity provides post-retirement benefits by subsidising the medical aid contributions of certain retired staff. According to the rules of the Medical Aid Funds with which the Economic Entity is associated, a member, on retirement, is entitled to remain a continued member of such medical aid fund. Should the member opt to remain on the fund, the member is liable for the portion, as determined by Council from time to time, of the medical aid membership fee and the Economic Entity for the remaining portion.

These contributions are charged to the Statement of Financial Performance when employees have rendered the service entitling them to the contribution.

The liability in respect of current pensioners is regarded as fully accrued and is therefore not split between a past (or accrued) and future in-service element. The liability is recognised at the fair value of the obligation.

The actuarial gains or losses are recognised in the Statement of Financial Performance in the year incurred. Actuarial valuations are conducted on an annual basis for each plan. In the event that an independent actuarial valuation is not performed, Management will assess whether the assumptions used in the previous valuation remain applicable. If so, the valuation will be based on the previous independent valuation. If not, an adjustment is made to take into account any changes in assumptions.

### **Gratuity Provision**

A provision in respect of the liability relating to gratuities payable to employees that were not previously members of a pension fund is maintained. The gratuity is payable by Council to wage earners who joined the Economic Entity before 1988. The Council decided to make gratuity payments to these employees upon retirement. The amount payable is based on the individual employee wage rate and the number of years in service until the employee joined a pension fund. The provision is determined with reference to minimum wage rate applicable immediately prior to joining the pension fund multiplied by number of years' service and adjusted annually based on the average interest earned on investments.

### **Long service awards**

Employees who have completed 25 years unbroken service are entitled to receive a once-off cash award not exceeding R2 500. The cash award is included in the employee's salary in the month of the service anniversary.

### **Defined contribution plans:**

The Economic Entity has used GRAP 25 as guidance for treatment of multi-employer plans as sufficient information was not available to use defined-benefit accounting. The Economic Entity has therefore accounted for the Cape Joint Pension Fund and the SALA Pension Fund as defined contribution plans. It is impracticable to disclose as a defined benefit plan because the funds do not determine a separate actuarial valuation per Economic Entity but do it as a whole for all the Municipalities together.

### **Retirement benefits**

The Economic Entity provides retirement benefits for its employees and councillors.

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions, if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable.

## **11. PROVISIONS AND CONTINGENCIES**

Provisions are recognised when the Economic Entity has a present obligation (legal or constructive) as a result of past events and 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 amount of the obligation.

The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date (for example in the case of obligations for the rehabilitation of land). The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost.

If the effect of the time value of money is material, provisions are discounted using a rate that reflects the risk of the liability.

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

Future events that may affect the amount required to settle an obligation are reflected in the provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

With respect to litigation and claims against the Economic Entity, the Economic Entity's Legal Counsel assesses the list of claims against the Economic Entity on an annual basis. The Economic Entity recognises a provision for all claims/cases for which the outflow of economic resources is probable and the amount can be reliably estimated.

The Economic Entity does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.



## **12. FINANCIAL INSTRUMENTS**

### **Initial Recognition**

The Municipality recognises a financial asset or a financial liability in its Statement of Financial Position when, and only when, the Economic Entity becomes a party to the contractual provisions of the instrument.

The Economic Entity recognises financial assets using trade date accounting.

#### Distinguishing liabilities and residual interests

A financial instrument or its component parts is classified on initial recognition as a financial liability, a financial asset or residual interest in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and a residual interest.

#### Compound financial instruments

The Economic Entity evaluates the terms of a financial instrument to determine whether it contains both a liability and residual interest component. Such components are classified separately as financial liabilities or residual interests.

### **Initial Measurement of financial assets and financial liabilities**

When a financial asset or financial liability is recognised initially, the Economic Entity measures it at its fair value plus, in the case of a financial asset or a financial liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example where interest free credit is granted or where credit is granted at a below market rate of interest.

### **Concessionary loans**

The Economic Entity first assesses whether the substance of a concessionary loan meets the definition of a financial instrument. On initial recognition, the Economic Entity analyses a concessionary loan into its component parts and accounts for each component separately. The Economic Entity accounts for that part of a concessionary loan that is:

- a) 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
- b) 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.

The part of the concessionary loan that is a social benefit or non-exchange revenue is determined as the difference between the fair value of the loan and the loan proceeds, either paid or received.

After initial recognition, an entity measures concessionary loans in accordance with the subsequent measurement criteria set out for all financial instruments.

### **Subsequent Measurement of financial assets and financial liabilities**

Subsequent to initial recognition, financial assets and financial liabilities are measured at fair value, amortised cost or cost.

All financial assets and financial liabilities are measured after initial recognition using the following categories:

- a) Financial instruments at fair value
  - Instruments held for trading.

- Non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition.
  - Financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.
- b) Financial instruments at amortised cost
- Non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that the Economic Entity designates at fair value at initial recognition or are held for trading.
- c) Financial instruments at cost
- Investments in residual interests that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

The Economic Entity assesses which instruments should be subsequently measured at fair value, amortised cost or cost, based on the definitions of financial instruments at fair value, financial instruments at amortised cost or financial instruments at cost as set out above.

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

### **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 of financial assets**

All financial assets measured at amortised cost, or cost, are subject to an impairment review. The Economic Entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

#### Financial assets measured at amortised cost:

The Economic Entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If an entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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 (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced 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 (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal may not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

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

**Derecognition of financial assets:**

The Economic Entity derecognises financial assets using trade date accounting.

The Economic Entity derecognises a financial asset only when:

- a) The contractual right to the cash flow from the financial asset expire, are settled or waived;
- b) The Economic Entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- c) Despite having retained significant risks and rewards, the entity has transferred control of the asset to another party.

**Derecognition of financial liabilities:**

The Economic Entity derecognises a financial liability from its statement of financial position when it is extinguished, that is, when the obligation specified in the contract is discharged, cancelled, expires or waived.

**Presentation:**

**Interest, losses and gains**

Interest, losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit

**Offsetting a financial asset and a financial liability**

The Economic Entity does not offset financial assets and financial liabilities in the Statement of Financial Position unless a legal right to set-off exists and the parties intend to settle on a net basis or to realise the asset and settle the liability simultaneously.

**Policies relating to specific financial instruments**

**Investments at amortised cost**

Investments, which include fixed deposits and short-term deposits invested in registered commercial banks, are categorised as financial instruments at amortised cost and are subsequently measured at amortised cost, using effective interest method.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is recognised in the Statement of Financial Performance.

**Investments at fair value**

Investments, which represent investments in equity for which fair value can be measured reliably, are subsequently measured at fair value. The fair value is based on market values at valuation date.

Gains and losses in the fair value of such investments are recognised in the Statement of Financial Performance.

**Cash and cash equivalents**

Cash and cash equivalents are measured at amortised cost.

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprises of cash on hand and deposits held on call with banks.

#### **Trade and other receivables**

Trade and other receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition and subsequently stated at amortised cost, less provision for impairment. Amounts that are receivable within 12 months from the reporting date are classified as current. Interest is charged on overdue accounts.

Bad debts are written off in the year in which they are identified as irrecoverable, subject to the approval of the Council.

#### **Trade and other payables**

Trade payables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition and are subsequently measured at amortised cost using the effective interest method.

### **13. PROPERTY, PLANT AND EQUIPMENT**

#### **Initial recognition**

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

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Economic Entity and the cost or fair value of the item can be measured reliably.

#### **Measurement at recognition**

Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. Where an asset is acquired by the Economic Entity for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Economic Entity. The cost also includes the initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located.

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

Where an item of property, plant and equipment is acquired in exchange for a similar asset, the acquired asset is initially measured at the carrying value of the asset given up.

Where an item of property, plant and equipment is acquired in exchange for a dissimilar asset, the acquired item is initially measured at the fair value (the cost). If the acquired item's fair value is not determinable, the allocated deemed cost is the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the Economic Entity expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with a specific item of property, plant and equipment, they are accounted for as property, plant and equipment.

### **Subsequent measurement**

Subsequent to initial recognition, items of property, plant and equipment (other than land) are measured at cost less accumulated depreciation and impairment losses.

Subsequent to initial recognition, land is measured at cost and is not depreciated because it has an indefinite useful life.

Where the Economic Entity replaces parts of an asset, it derecognises the part of the asset replaced and capitalises the new component.

Subsequent expenditure including major spare parts and servicing equipment qualify as property, plant and equipment if the recognition criteria are met.

### **Depreciation**

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful life of the component assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

The component assets' residual values, useful lives and depreciation methods are reviewed at each financial year-end and if expectations differ from previous estimates, the changes are accounted for as a change in estimate in accordance with the standard of GRAP on accounting policies, changes in accounting estimates and errors.

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

The annual depreciation rates for the current and previous year are based on the following average asset useful lives:

<b>Land &amp; Buildings</b>	<b>Useful Life Range in Years</b>
Buildings	15 - 50
Land	Indefinite Life
<b>Infrastructure Assets</b>	<b>Useful Life Range in Years</b>
Fencing, Roads, Sidewalks & Stormwater Networks	5 – 100
Beach Developments	30 – 50
Electricity Reticulation & Supply	10 – 80
Sewerage Mains & Purification Works	15 – 80
Waste Disposal Facilities	20 – 100
Water Supply & Reticulation	10 – 50
Dams & Treatment Works	25 – 100
<b>Other Assets</b>	<b>Useful Life Range in Years</b>
Bins & Containers	5 – 15
Air Monitoring, Emergency & Medical Equipment	5 – 20

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
**ACCOUNTING POLICIES OF THE ECONOMIC ENTITY'S FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2017**

22

Vehicles & Plant	4 – 30
Office Furniture & Fittings	3 – 20
Landfill Sites	50
Security Systems	5 – 15
Tip Sites	30
Computer Hardware	3 – 8

Community Assets	Useful Life Range in Years
Libraries	15 – 50
Fire Stations	15 – 50
Library Books	5 – 20
Cemeteries	15 – 50
Clinics	15 – 50
Community Centres	15 – 50
Public Conveniences	15 – 50
Swimming Pools	15 – 50
Recreational Facilities	15 – 50
Selling & Letting Schemes	15 – 50

**Impairment:**

**Recognition and measurement of an impairment loss for an item of property, plant and equipment**

An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

The carrying amount of an asset is reduced to its recoverable amount if, and only if, its recoverable amount is less than its carrying amount.

The impairment loss is recognised immediately in surplus and deficit.

**Derecognition**

The carrying amount of an item of property, plant and equipment is 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 on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance. Residual values are assumed to be zero, unless otherwise stated.

**14. HERITAGE ASSETS**

**Initial recognition and measurement**

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

Heritage assets are recognised when it is probable that future economic benefits or service potential associated with the item will flow to the Economic Entity and the cost or fair value of the item can be measured reliably.

When an asset, does not meet the initial recognition criteria of a heritage asset, the Economic Entity discloses the relevant and useful information about such assets in the notes to the financial statements.

Heritage assets are initially recognised at cost on acquisition date.

The cost 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 the Economic Entity.

Where an asset is acquired by the Economic Entity for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an asset is acquired in exchange for a similar asset, the acquired asset is initially measured at the carrying value of the asset given up.

Where an asset is acquired in exchange for a dissimilar asset, the acquired item is initially measured at the fair value (the cost). If the acquired item's fair value is not determinable, the allocated deemed cost is the carrying amount of the asset given up.

### **Subsequent measurement**

Subsequent to initial recognition, the Economic Entity uses the cost model to measure its heritage assets.

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

The table below reflects the class of heritage assets and the estimated useful life range in years:

<b>Heritage Sites</b>	<b>Useful Life Range in Years</b>
Memorials & Statues	Indefinite Life
Heritage Sites	Indefinite Life
Museums	Indefinite Life
Art Works	Indefinite Life
Collections of rare books and manuscripts	Indefinite Life

### **Impairment**

The Economic Entity does not depreciate its heritage assets, but at each financial year end, it assesses whether there is an indication that the assets may be impaired. If such an indication exists, the Economic Entity estimates the recoverable amount or the recoverable service amount of the heritage asset.

### **Derecognition**

Heritage assets 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 on the disposal or retirement of a heritage asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

## **15. INTANGIBLE ASSETS**

### **Initial recognition and measurement**

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences and development costs. The Economic Entity recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the Economic Entity and the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the Economic Entity for no or nominal consideration (i.e. a non-exchange transaction), its initial cost at the date of acquisition is measured at its fair value as the date of acquisition.

**Intangible assets acquired through non-exchange transactions:**

**Internally generated intangible assets:**

**Research phase**

The Economic Entity does not recognise any intangible asset arising from a research phase of an internal project. Expenditure on research phase of an internal project is recognised as an expense when incurred.

**Development phase**

An intangible asset arising from development phase is recognised if, and only if the Economic Entity can demonstrate all of the following:

- a) The technical feasibility of completing the intangible asset so it will be available for use or resale;
- b) Its intention to complete the intangible asset and use it or sell it;
- c) Its ability to use or sell the intangible asset;
- d) How the intangible asset will generate probable future economic benefits or service potential;
- e) The availability of technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- f) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

**Exchanges of assets**

The cost of an intangible asset acquired in exchange for another is measured at fair value unless the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

**Subsequent measurement**

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

The cost of an intangible asset is amortised over its useful life where that useful life is finite. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Financial Performance in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

**Amortisation and impairment**

Amortisation is charged to write off the cost of intangible assets over their estimated useful lives using the straight-line method. Amortisation of an asset begins when it is available for use.



The annual amortisation rates are based on the following estimated average asset useful lives:

Intangible	Useful Life Range in Years
Computer Software	3 – 5
Website Development	3 – 5

The amortisation period, the amortisation method and residual value for intangible assets with finite useful lives are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

#### **Derecognition**

Intangible assets 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 on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

## **16. INVESTMENT PROPERTY**

### **Initial recognition and measurement**

Investment property includes property (land or a building or part of a building or both land or buildings held by owner or by a lessee under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services or the sale of an asset in the ordinary course of operations.

Investment property is initially recognised as an asset when, and only when, it is probable that future economic benefits and or service potential will flow to the Economic Entity and the cost or fair value can be measured reliably.

At initial recognition, the Economic Entity measures investment property at cost including transaction costs once it meets the definition of investment property.

Where an investment property was acquired through a non-exchange transaction (i.e. where the Economic Entity acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

Transfers are made to or from investment property only when there is a change in use. If owner occupied property becomes an investment property, the Economic Entity accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. If investment property becomes owner-occupied property, the Economic Entity accounts for such property in accordance with the policy stated under investment property up to the date of change in use. The costs of day-to-day servicing of investment properties are recognised in the Statement of Financial Performance as incurred.

### **Subsequent measurement**

Investment property is measured using the cost model. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and accumulated impairment losses.

### **Depreciation**

Depreciation begins when the asset is available for use. Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are

depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Investment Property	Useful Life Range in Years
Land	Indefinite Life
Buildings	15 - 50

The investment property's residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate, at each financial year-end.

Land is not depreciated.

### **Fair Value**

The assumptions for determining the fair value of the investment property is set out in Note 12 of the Consolidated Financial Statements.

### **Derecognition**

Investment property is derecognised when it is disposed of or when no future economic benefits or service potential are to be derived from the use of the asset. All gains or losses from the disposal of investment property are determined as the difference between the sales proceeds and the carrying value of the asset and are recognised in the Statement of Financial Performance.

## **17. INVENTORIES**

### **Initial recognition and measurement**

Inventories comprise assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes (other than VAT), transport costs and any other direct costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the Economic Entity for no or nominal consideration (i.e. a non-exchange transaction), the cost is measured at its fair value as at the date of acquisition.

### **Subsequent measurement**

Inventories, consisting of consumable stores, raw materials, water and finished goods (FG), are measured at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. The basis of determining cost is first-in, first-out (FIFO) method for all inventory categories except water. Water is measured on the weighted average method.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values.

An impairment provision for the write down of inventory is maintained in lieu of obsolete inventory. The level of the impairment provision for obsolete inventory is the value equivalent to the value of inventory assessed as obsolete at financial year-end.

Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction of inventories recognised as an expense in the period in which the reversal occurs.

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

The Economic Entity purchases its water. The cost of water purchased and not yet sold as reflected in the statement of financial position comprises the purchase price and other direct costs attributable to the acquisition. The estimation of the water stock in the reservoirs is based on the measurement of water via electronic level sensors, which determines the depth of water in the reservoirs, which is then converted into volumes based on the total capacity of the reservoir.

## **18. IMPAIRMENT OF NON-CASH-GENERATING ASSETS**

### **Recognition**

The Economic Entity assesses at each reporting date whether there is an indication that an asset may be impaired. Where any such indication exists, the Economic Entity estimates the recoverable service amount of the asset. Where the carrying amount of an asset exceeds its recoverable amount (or recoverable service amount in the case of non-cash-generating assets), the asset is considered impaired and is written down to its recoverable amount (or recoverable service amount). An asset's recoverable amount (or recoverable service amount) is the higher of the fair value less costs to sell, and the value-in-use of the asset.

The Economic Entity classifies the asset/identifiable group of assets as cash-generating if the key purpose of such asset/group of assets is to derive a commercial return from continuing use, and are independent of the cash inflows from other assets or groups of assets. The Economic Entity will classify all other assets that do not meet the definition of cash-generating assets/group of assets as non-cash generating assets.

### **Measurement**

An asset's recoverable amount (or recoverable service amount) is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value-in-use. This recoverable amount (or recoverable service amount) is determined for individual assets, unless those individual assets are part of a larger cash-generating unit, in which case the recoverable amount (or recoverable service amount) is determined for the whole cash-generating unit.

An asset is part of a cash-generating unit where that asset does not generate cash inflows that are largely independent of those from other assets or group of assets.

In determining the recoverable amount (or recoverable service amount) of an asset the entity evaluates the assets to determine whether the assets are cash generating assets or non-cash generating assets.

For cash generating assets, the value in use is determined as a function of the discounted future cash flows from the asset.

Where the asset is a non-cash generating asset, the value in use is determined through one of the following approaches:

- Depreciated replacement cost approach: The current replacement cost of the asset is used as the basis for this value. This current replacement cost is depreciated for a period equal to the period that the asset has been in use so that the final depreciated replacement cost is representative of the age of the asset.
- Restoration cost approach: The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment.
- Service units approach: The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before

impairment, to conform to the reduced number of service units expected from the asset in its impaired state.

The decision as to which approach to use is dependent on the nature of the identified impairment.

In assessing value-in-use for cash-generating assets, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, other fair value indicators are used.

Impairment losses of continuing operations are recognised in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Economic Entity makes an estimate of the assets or cash-generating unit's recoverable amount.

### **Reversal of impairment losses**

A previously recognised impairment loss is reversed only 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 reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

The reversal of an impairment loss for an asset is recognised immediately in the Statement of Financial Performance.

## **19. REVENUE**

### **19.1 Revenue from Exchange Transactions**

Revenue from exchange transactions refers to revenue that accrues to the Economic Entity directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable, excluding indirect taxes, rebates and discounts.

#### **Recognition**

**The recognition criteria is usually applied separately to each transaction**

#### **Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be 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:

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

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

#### **Sale of goods**

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

- (a) the Economic Entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;

- (b) the Economic Entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (c) the amount of revenue can be measured reliably;
- (d) it is probable that the economic benefits or service potential associated with the transaction will flow to the Economic Entity; and
- (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue arising out of situations where the entity acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the entity as compensation for executing the agreed services.

#### **Specific exchange-revenue sources**

Service charges relating to electricity, water and sewerage are based on consumption. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced.

Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read and the related revenue adjustment is recognised in the same period.

Electricity meters in industrial areas are read at the end of each month and billed the following month. Premises with high-tension electricity supplies are read and billed monthly.

Revenue arising from the consumption of electricity and water in the month of June is fully accounted for whether invoiced or not.

Revenue from the sale of electricity prepaid meter cards is recognised at point of sale.

Revenue arising from the application of the approved tariffs, fees and charges is generally recognised when the relevant service is rendered.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff. Tariffs are determined per category of property usage and are levied monthly based on the costs of providing the refuse removal service.

Rental income arising from the use of investment properties, facilities and equipment is accounted for on a straight-line basis over the lease term on on-going leases.

Revenue from the issue of permits and licenses is recognised at point and time of issue.

Interest income is recognised in surplus or deficit on a time proportionate basis, using the effective interest method (i.e. based on the effective interest rate of the individual investments).

Interest earned on the following investments is not recognised in the Statement of Financial Performance:

- Interest earned on trust funds is allocated to the fund concerned; and
- Interest earned on unutilised conditional grants is allocated to the creditor (i.e. recognised as an obligation), if grant conditions indicate that interest is payable to the funder.

#### **Measurement**

Revenue from exchange transactions is measured at the fair value of the consideration received or receivable.

The Economic Entity has an obligation in terms of legislation to collect all revenue and as such, the Economic Entity does not consider the collective collectability of the revenue on initial recognition on a portfolio basis. The Economic Entity assesses collectability subsequent to initial measurement and should the receivable be impaired, the impairment loss is recognised as an expense.

## **19.2 Revenue from Non-Exchange Transactions**

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

### **Recognition of revenue**

Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

### **Recognition of assets**

An inflow of resources from a non-exchange transaction that meets the definition of an asset is recognised as an asset when it is probable that the future economic benefits or service potential associated with the asset will flow to the Economic Entity and the fair value of the asset can be measured reliably. The asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow. A present obligation arising from a non-exchange transaction that meets the definition of a liability will be recognised as a liability when it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made.

### **Specific non-exchange-revenue sources**

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Council applies a flat rating system. The same rate factor is applied for land and buildings. In terms of this system, assessment rates are levied on the value of land and buildings in respect of properties. Rebates are granted according to the use of the property concerned. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis.

Fines are recognised when it is probable that future economic benefits will flow to the Economic Entity, the costs can be reliably measured and all restrictions have been complied with. Fines constitute both spot fines and summonses. Revenue from spot fines is recognised when payment is received and the revenue from the issuing of summonses is recognised when collected. Due to the various legal processes that can apply to summonses and the inadequate information received from the courts, it is not possible to measure this revenue in the invoicing period, therefore an accrual is raised at the end of the financial year based on the average collection of fines throughout the year.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualify for recognition and first becomes available for use by the Economic Entity. Where public contributions have been received but the Economic Entity has not met the related conditions that would entitle it to the revenue, a liability is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualify for recognition and first becomes available for use by the Economic Entity.

Fuel levy is recognised in revenue when the income is received.

Grants, transfers or donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset and there is no corresponding liability in respect of related conditions. Where the grant, transfer or donation has been received but the Economic Entity has not met the related conditions that would entitle it to the revenue, a liability is recognised.

### **Measurement of revenue from non-exchange transactions**

Revenue from a non-exchange transaction shall be measured at the amount of the increase in net assets, recognised by the entity.

### **Fines**

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

### **Bequests**

Bequests are measured at the fair value of the resources received or receivable.

### **Gifts and donations**

On initial recognition, gifts and donations are measured at their fair value as at the date of acquisition, which may be ascertained by reference to an active market, or by appraisal. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession that holds a recognised and relevant professional qualification.

An asset that is recognised as a result of a non-exchange transaction is recognised at its fair value at the date of the transfer. Consequently, revenue arising from a non-exchange transaction is measured at the fair value of the asset received, less the amount of any liabilities that are also recognised due to conditions that must still be satisfied.

Where there are conditions attached to a grant, transfer or donation that gave rise to a liability at initial recognition, that liability is transferred to revenue as and when the conditions attached to the grant are met. Therefore the best estimate of the amount required to settle the present obligation at the reporting date will be recognised as a liability.

Grants without any conditions attached are recognised as revenue in full when the asset is recognised, at an amount equalling the fair value of the asset received.

Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor.

The Economic Entity has an obligation in terms of legislation to collect all revenue and as such, the Economic Entity does not consider the collective collectability of the revenue on initial recognition on a portfolio basis. The Economic Entity assesses collectability subsequent to initial measurement and should the receivable be impaired, the impairment loss is recognised as an expense.

### **Expenditure from Non-exchange Transactions**

The accounting policy for expenditure arising from non-exchange transactions is similar to policy for non-exchange revenue.

Expenditure from non-exchange transactions is recognised when the resources have been transferred to the beneficiaries. A corresponding asset is raised to the extent that conditions attached to the expenditure have not been met. The asset is transferred to the Statement of Financial Performance once the conditions are met.

## **20. BORROWING COSTS**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The Economic Entity ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete.

It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established.

Borrowing costs incurred other than on qualifying assets are recognised as an expense in the Statement of Financial Performance using the effective interest method.

## **21. LEASES**

### **Leases in the financial statements of lessees**

#### **Operating leases**

##### **Recognition**

Assets subject to operating leases, i.e. those leases where substantially all of the risks and rewards of ownership are not transferred to the lessee through the lease, are not recognised in the Statement of Financial Position. Lease payments under an operating lease are recognised as an expense in the statement of financial performance, on a straight line basis over the lease term. To the extent that the straight-lined lease payments differ from the actual lease payments the difference is recognised in the Statement of Financial Position as either lease payments in advance (operating lease asset) or lease payments payable (operating lease liability) as the case may be.

##### **Measurement**

The resulting asset and / or liability is measured as the undiscounted difference between the straight-line lease payments and the contractual lease payments.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, namely whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

##### **Derecognition**

The operating lease liability is derecognised when the Economic Entity's obligation to settle the liability is extinguished. The operating lease asset is derecognised when the Economic Entity no longer anticipates economic benefits to flow from the asset.

### **Leases – Economic Entity as lessor**

#### **Operating leases**

The Economic Entity presents assets subject to operating leases in its Statement of Financial Position according to the nature of the asset.

Lease revenue from operating leases is recognised as revenue on a straight-line basis over the lease term. Initial direct costs incurred by the Economic Entity in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as expenses over the lease term on the same basis as the lease revenue.

The depreciation policy for depreciable leased assets is consistent with the Economic Entity's normal depreciation policy for similar assets, and depreciation is calculated in accordance with the Standards of GRAP on Property, Plant and Equipment and Intangible Assets.

##### **Recognition**

For those leases classified as operating leases the asset subject to the lease is not derecognised and no lease receivable is recognised at the inception of the lease. Lease payments received under an operating lease are recognised as income, in the Statement of Financial Performance, on a straight-line basis over the lease period.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, namely, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.



### **Measurement**

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined lease payments and the contractual lease payments are recognised as either an operating lease asset or operating lease liability. An operating lease liability is raised to the extent that lease payments are received in advance (i.e. the straight-line lease payments are more than the contractual lease payments). The operating lease asset and / or operating lease liability are measured as the undiscounted difference between the straight-line lease receipts and the contractual lease receipts.

### **Derecognition**

Operating lease liabilities are derecognised when the Economic Entity's obligation to provide economic benefits or service potential under the lease agreement expires. Operating lease assets are derecognised when the Economic Entity's right to the underlying cash flows expire or the Economic Entity no longer expects economic benefits to flow from the operating lease asset.

## **22. REPORTING FOREIGN CURRENCY TRANSACTIONS IN THE FUNCTIONAL CURRENCY**

### **Initial recognition**

A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

### **Reporting at subsequent reporting dates**

At each reporting date:

- (a) foreign currency monetary items shall be translated using the closing rate;
- (b) non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and
- (c) non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

### **Recognition of exchange differences**

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall be recognised in surplus or deficit in the period in which they arise,

## **23. VALUE ADDED TAX (VAT)**

The Economic Entity accounts for Value Added Tax on the payments basis. Revenue, expenses and assets are recognised net of the amount of VAT. The net amount of VAT refundable from or payable to, the taxation authority is disclosed on the face of the statement of financial position.

## **24. UNAUTHORISED EXPENDITURE**

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, Economic Entity or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure incurred for the financial period is accounted for as a normal expense in the Statement of Financial Performance but form part of disclosure of unauthorised, irregular and fruitless and wasteful expenditure in the notes to the financial statements.

#### **25. IRREGULAR EXPENDITURE**

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 incurred for the financial period is accounted for as a normal expense in the Statement of Financial Performance but form part of disclosure of unauthorised, irregular and fruitless and wasteful expenditure in the notes to the financial statements.

#### **26. FRUITLESS AND WASTEFUL EXPENDITURE**

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure incurred for the financial period is accounted for as a normal expense in the Statement of Financial Performance but form part of disclosure of unauthorised, irregular and fruitless and wasteful expenditure in the notes to the financial statements.

#### **27. RECOVERY OF UNAUTHORISED, IRREGULAR, FRUITLESS & WASTEFUL EXPENDITURE**

The recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, and is recognised when the recovery thereof from the responsible officials is probable. The recovery of unauthorised, irregular, fruitless and wasteful expenditure is treated as other income.

#### **28. TRANSFER OF FUNCTIONS BETWEEN ENTITIES NOT UNDER COMMON CONTROL**

##### **Common Control**

For a transaction or event to occur between entities under common control, the transaction or event needs to be undertaken between entities within the same sphere of government or between entities that are part of the same economic entity. Entities that are ultimately controlled by the same entity before and after the transfer of functions are within the same economic entity.

The Economic Entity uses the acquisition method in accounting for transactions relating to transfer of functions, between entities not under common control.

Applying the acquisition method requires:

- a) Identifying the acquirer.
- b) Determining the acquisition date.
- c) Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree.
- d) Recognising the difference between (c) and the consideration transferred to the seller.

The acquisition date is the date on which the acquirer obtains control of the acquiree.

##### **Economic Entity as the acquirer:**

At acquisition date, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree shall be recognised if:

- a) The assets taken on and the liabilities assumed meets the definitions of an asset and liability as set out in the Framework for the Preparation and Presentation of Financial Statements.
- b) These assets and liabilities relate to the binding agreement between the parties to the transaction and may not relate to separate transactions.

Assets and liabilities not previously recognised by the acquiree will be recognised if these assets and liabilities now meet the recognition criteria (for example internal generated intangible assets not previously recognised).

The acquirer measures the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.

## **29. EVENTS AFTER THE REPORTING DATE**

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the Consolidated 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 is indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

### **Adjusting events after reporting date**

The Economic Entity adjusts the amounts recognised in the Consolidated Financial Statements to reflect adjusting events after the reporting date

### **Non-adjusting events after the reporting date**

The Economic Entity does not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting date. The Economic Entity discloses 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 Consolidated Financial Statements.

## **30. RELATED PARTIES**

The Economic Entity has processes and controls in place to aid in the identification of related parties. A related party is a person or an entity with the ability to control or jointly control the other party or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. Related party relationships where control exists are disclosed regardless of whether any transactions took place between the parties during the reporting period.

Where transactions occurred between the Economic Entity and one or more related parties, and those transactions were not within:

- Normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the Economic Entity to have adopted if dealing with that individual entity or person in the same circumstances; and
- Terms and conditions within the normal operating parameters established by the Economic Entity's legal mandate,

Further details about those transactions are disclosed in the notes to the financial statements.

## **31. PRESENTATION OF BUDGET INFORMATION IN THE FINANCIAL STATEMENTS**

### **Presentation of a comparison of budget and actual amounts**

The Economic Entity presents a comparison of the budget amounts for which it is held publicly accountable and actual amounts as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP24. The comparison of budget and actual amounts present separately for each level of legislative oversight:

- (a) the approved and final budget amounts;
- (b) the actual amounts on a comparable basis; and
- (c) by way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts.

#### **Presentation and disclosure**

The Economic Entity presents a comparison of budget and actual amounts as additional budget columns in the primary financial statements because the financial statements and the budget are prepared on a comparable basis.

#### **Changes from approved to final budget**

The Economic Entity presents an explanation of whether changes between the approved and final budget are a consequence of reallocations within the budget or of other factors:

- (b) in a report issued before, at the same time as, or in conjunction with the financial statements, and shall include a cross reference to the report in the notes to the financial statements.

#### **Comparable basis**

All comparisons of budget and actual amounts are presented on a comparable basis to the budget.

The Economic Entity is 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 the Economic Entity shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

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

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts. Comparative information is not required.

### **32. COMMITMENTS**

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

Disclosure is done to the extent that it has not already been recognised elsewhere in the financial statements.

Capital commitments are treated as follows:

- The aggregate amount of capital expenditure contracted for at the reporting date, to the extent that the amount has not been recorded in the financial statements; and
- If a commitment is for a period longer than a year.

Commitments are disclosed in the following circumstances:

- Unrecorded capital expenditure approved and contracted for before/at reporting date;
- Unrecorded capital expenditure approved but not yet contracted for at reporting date; and
- Unrecorded capital expenditure approved after reporting date.

### **33. GRANTS-IN-AID**

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

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

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

### **34. IMPAIRMENT**

#### **Impairment of cash generating units:**

In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

#### **External sources of information**

- (a) During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
- (b) Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.
- (c) Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

#### **Internal sources of information**

- (d) Evidence is available of obsolescence or physical damage of an asset.
- (e) Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
- (f) A decision to halt the construction of the asset before it is complete or in a usable condition.
- (g) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

#### **Impairment of non-cash generating units:**

In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

#### **External sources of information**

- (a) Cessation, or near cessation, of the demand or need for services provided by the asset.
- (b) Significant long-term changes with an adverse effect on the entity have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the entity operates.

#### **Internal sources of information**

- (c) Evidence is available of physical damage of an asset.
- (d) Significant long-term changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming

idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date.

- (e) A decision to halt the construction of the asset before it is complete or in a usable condition.
- (f) Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.

### **35. CONSTRUCTION CONTRACTS**

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of the contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that is probable to be recovered. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date exceed capital grants received, the surplus is shown as amounts due from funders for contract work. For contracts where capital grants received exceed contract costs incurred to date, the surplus is shown as the amounts due to funders for contract work. Amounts received before the related work is performed are included in the statement of financial position, as a liability, as unspent project funding received. Amounts billed for work performed but not yet paid by the funder are included in the statement of financial position under trade and other receivables.

Unutilised project funding is reflected on the Statement of Financial Position as a Current Liability - Unspent Project Funding. The cash received is invested until it is utilised.