



KING CETSHWAYO

DISTRICT MUNICIPALITY

**Annual financial statements
for the year ended 30 June 2018**

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

GENERAL INFORMATION

Nature of business and principal activities	Municipality
Acting Accounting Officer	NE Biyase
Registered office	King Cetshwayo District Municipality Krugerrand, CBD RICHARDS BAY 3900
Business address	King Cetshwayo District Municipality Krugerrand, CBD RICHARDS BAY 3900
Postal address	Private Bag X1025 RICHARDS BAY 3900
Bankers	Nedbank Limited
Auditors	Auditor-General of South Africa
Senior Legal advisor	G Dlamini
Municipal demarcation code	DC 28

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

INDEX

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

	Page
Statement of Municipal Manager's Responsibility	4
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Cash Flow Statement	8
Statement of Comparison of Budget and Actual Amounts	9 - 11
Accounting Policies	12 - 31
Notes to the Annual Financial Statements	32 - 94
<p>The following supplementary information does not form part of the annual financial statements and is unaudited:</p>	
Appendix A: Schedule of External Loans	95
Appendix B: Analysis of Property, Plant and Equipment	96
Appendix C: Segmental analysis of Property, Plant and Equipment	97
Appendix D: Segmental Statement of Financial Performance	98
Appendix E: Actual versus Budget (Acquisition of Property, Plant and Equipment)	99
Appendix F: Disclosure of Grants and Subsidies in terms of the Municipal Finance Management Act	100
Appendix G: Appropriation Statement (Reconciliation: Budget and in year performance)	101

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

INDEX

MFMA	Municipal Finance Management Act (Act No. 56 of 2003)
GRAP	Generally Recognised Accounting Practice
IPSAS	International Public Sector Accounting Standards
IAS	International Accounting Standards
EQS	Equitable Share
WSIG	Water Services Infrastructure Grant
MWIG	Municipal Water Infrastructure Grant
RBIG	Regional Bulk Infrastructure Grant
MIG	Municipal Infrastructure Grant
EPWP	Expanded Public Works Programme
RRAMS	Rural Roads Asset Management Systems
MPAC	Municipal Public Accounts Committee
FMG	Finance Management Grant
LGSETA	Local Government Sector Education Training Authority
SARS	South African Revenue Services
VAT	Value Added Tax Act No. 89 of 1991
DWS	Department of Water Affairs and Sanitation
COGTA	Cooperative Governance and Traditional Affairs
MSCOA	Municipal Standard Chart of Accounts

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

STATEMENT OF MUNICIPAL MANAGER'S RESPONSIBILITY

I am responsible for the preparation of these annual financial statements, which are set out on pages 4 to 101, in terms of Section 126(1) of the Municipal Finance Management Act (Act no. 56 of 2003) 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 Office Bearers Act (Act no. 20 of 1998) and the Minister of Provincial and Local Government determination in accordance with this Act.

The King Cetshwayo District Municipality, situated in the central business district, Richards Bay, is a category C municipality established in terms of Section 12(1) of the Municipal Structures Act, 1998(Act No. 117 of 1998).

As required by Section 45 of the Municipal Systems Act and Section 121(4)(a) and (b) of the Municipal Finance Management Act, the annual financial statements were submitted to the Auditor General South Africa (AGSA) on 31 August 2018.

NE Biyase
Acting Accounting Officer

Richards Bay
Friday, 31 August 2018

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

Figures in Rand	Note(s)	2018	2017 Restated*
Assets			
Current Assets			
Inventories	2	6 036 170	5 730 925
Receivables from exchange transactions - consumer debtors	3	37 265 291	24 955 435
Receivables from exchange transactions - VAT	4	59 232 227	47 342 547
Receivables from non-exchange transactions	5	18 946 088	40 080 083
Current portion of long term receivables	6	47 772	42 983
Cash and cash equivalents	7	498 282 726	503 357 452
		619 810 274	621 509 425
Non-Current Assets			
Long term receivables	6	172 941	221 524
Property, plant and equipment	8	2 278 977 824	2 155 783 174
Intangible assets	9	4 028 808	3 453 344
Heritage assets	10	700 000	700 000
Investments in municipal entities	11	688 134	6 129 393
Investments in financial asset - shares	12	79 600	73 613
		2 284 647 307	2 166 361 048
Total Assets		2 904 457 581	2 787 870 473
Liabilities			
Current Liabilities			
Current portion of long term liabilities	13	5 928 341	10 605 497
Payables from exchange transactions	14	256 888 395	229 861 614
Consumer deposits	15	10 011 629	10 386 568
Defined employee benefit obligations	16	938 000	796 000
Provisions	17	738 079	860 475
Unspent conditional grants and receipts	22	2 940 553	16 960 254
		277 444 997	269 470 408
Non-Current Liabilities			
Long term liabilities	13	38 533 314	44 461 655
Defined employee benefit obligations	16	31 470 000	30 043 000
Provisions	17	73 569 215	70 333 859
		143 572 529	144 838 514
Total Liabilities		421 017 526	414 308 922
Net Assets		2 483 440 055	2 373 561 551
Accumulated surplus		2 483 440 055	2 373 561 551

* See Note 42 & 41

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

STATEMENT OF FINANCIAL PERFORMANCE

Figures in Rand	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	18	77 590 709	64 841 192
Rental income	19	500 172	2 639 896
Interest received	20	46 638 976	47 703 379
Other income	23	3 210 798	7 376 800
Gain on disposal of property, plant and equipment		-	71 635
Fair value adjustments in investments	11 & 12	42 952	5 044
Total revenue from exchange transactions		127 983 607	122 637 946
Revenue from non-exchange transactions			
Government grants & subsidies	21	808 172 474	866 064 203
Public contributions and donations	8	6 928 779	-
Total revenue from non-exchange transactions		815 101 253	866 064 203
Total revenue		943 084 860	988 702 149
Expenditure			
Employee related costs	24	(190 182 188)	(173 189 349)
Remuneration of councillors	25	(11 778 097)	(9 985 553)
Depreciation, amortisation and impairment	26	(69 063 697)	(60 944 337)
Finance costs	27	(6 432 319)	(9 125 435)
Debt impairment	5	(5 317 989)	(12 345 987)
Bulk purchases	29	(47 254 675)	(33 777 850)
Contracted services	30	(378 276 559)	(269 535 223)
Transfers and subsidies	31	(11 519 719)	(12 631 524)
Loss on disposal of property, plant and equipment		(1 081 313)	-
Inventories losses/write-downs		-	(4 268 825)
Operational costs	32	(112 299 802)	(104 522 159)
Total expenditure		(833 206 358)	(690 326 242)
Surplus for the year		109 878 502	298 375 907

* See Note 42 & 41

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

STATEMENT OF CHANGES IN NET ASSETS

Figures in Rand	Accumulated surplus	Total net assets
Previously reported balance as at 1 July 2016	2 072 369 305	2 072 369 305
Adjustment for prior year depreciation	2 816 339	2 816 339
Balance as at 01 July 2016 restated	2 075 185 644	2 075 185 644
Surplus for the year restated	298 375 907	298 375 907
	<u>298 375 907</u>	<u>298 375 907</u>
Balance as at 01 July 2017	2 373 561 553	2 373 561 553
Surplus for the period	109 878 502	109 878 502
	<u>109 878 502</u>	<u>109 878 502</u>
Balance at 30 June 2018	2 483 440 055	2 483 440 055

* See Note 42 & 41

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

CASH FLOW STATEMENT

Figures in Rand	Note(s)	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Receipts from consumers and other		93 033 527	58 442 405
Grants		792 855 855	895 552 203
Interest income		46 638 976	47 703 379
		<u>932 528 358</u>	<u>1 001 697 987</u>
Payments			
Employee costs	24 & 25	(201 960 285)	(183 174 900)
Suppliers		(530 709 364)	(415 450 718)
Finance costs		(6 432 319)	(9 125 435)
		<u>(739 101 968)</u>	<u>(607 751 053)</u>
Net cash flows from operating activities	33	<u>193 426 390</u>	<u>393 946 934</u>
Cash flows from investing activities			
Payment for property, plant and equipment		(193 669 551)	(308 005 135)
Insurance proceeds and proceeds from the sale of property, plant and equipment		251 910	186 611
Purchases of heritage assets	10	-	(700 000)
Decrease in non-current/current receivables		43 794	89 992
Distribution of capital received from municipal entities		5 478 228	8 270 713
Net cash flows from investing activities		<u>(187 895 619)</u>	<u>(300 157 819)</u>
Cash flows from financing activities			
Repayment of long term liabilities	13	(10 605 497)	(12 988 988)
Net cash flows from financing activities		<u>(10 605 497)</u>	<u>(12 988 988)</u>
Net (decrease)/ increase in cash and cash equivalents		<u>(5 074 726)</u>	<u>80 800 127</u>
Cash and cash equivalents at the beginning of the period		503 357 452	422 557 325
Cash and cash equivalents at the end of the period	7	<u>498 282 726</u>	<u>503 357 452</u>

* See Note 42 & 41

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	85 623 594	(8 277 947)	77 345 647	77 590 709	245 062	
Rental income	6 543 069	51 528	6 594 597	500 172	(6 094 425)	43.1
Interest received	38 143 623	4 199 995	42 343 618	46 638 976	4 295 358	43.2
Other income	824 231	1 047 742	1 871 973	3 210 798	1 338 825	43.3
Total revenue from exchange transactions	131 134 517	(2 978 682)	128 155 835	127 940 655	(215 180)	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	813 283 000	20 267 279	833 550 279	808 172 474	(25 377 805)	
Public contributions and donations	-	-	-	6 928 779	6 928 779	
Total revenue from non-exchange transactions	813 283 000	20 267 279	833 550 279	815 101 253	(18 449 026)	
Total revenue	944 417 517	17 288 597	961 706 114	943 041 908	(18 664 206)	
Expenditure						
Employee related costs	(229 689 797)	34 158 232	(195 531 565)	(190 182 188)	5 349 377	
Remuneration of councillors	(12 153 234)	296 381	(11 856 853)	(11 778 097)	78 756	
Depreciation, amortisation and impairment	(86 211 197)	-	(86 211 197)	(69 063 697)	17 147 500	43.4
Finance costs	(6 432 321)	-	(6 432 321)	(6 432 319)	2	
Debt impairment	(3 614 533)	(1 703 456)	(5 317 989)	(5 317 989)	-	
Bulk purchases	(52 800 000)	5 364 493	(47 435 507)	(47 254 675)	180 832	
Contracted services	(259 291 694)	(128 359 831)	(387 651 525)	(378 276 559)	9 374 966	
Transfers and subsidies	(8 587 500)	(2 938 212)	(11 525 712)	(11 519 719)	5 993	
Operational costs	(91 465 453)	(24 019 145)	(115 484 598)	(112 299 802)	3 184 796	
Total expenditure	(750 245 729)	(117 201 538)	(867 447 267)	(832 125 045)	35 322 222	
Operating surplus/(loss)	194 171 788	(99 912 941)	94 258 847	110 916 863	16 658 016	
(Loss) on disposal of property, plant and equipment	-	-	-	(1 081 313)	(1 081 313)	
Fair value adjustments in investments	-	-	-	42 952	42 952	
	-	-	-	(1 038 361)	(1 038 361)	
Surplus	194 171 788	(99 912 941)	94 258 847	109 878 502	15 619 655	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	194 171 788	(99 912 941)	94 258 847	109 878 502	15 619 655	

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	10 872 569	-	10 872 569	6 036 170	(4 836 399)	43.5
Receivables from exchange transactions - consumer debtors	25 267 671	-	25 267 671	37 265 291	11 997 620	43.6
Receivables from exchange transactions - VAT	-	-	-	59 232 227	59 232 227	43.6
Receivables from non-exchange transactions	29 790 311	-	29 790 311	18 946 088	(10 844 223)	43.7
Current portion of long term receivables	44 625	-	44 625	47 772	3 147	
Cash and cash equivalents	384 279 000	-	384 279 000	498 282 726	114 003 726	43.8
	450 254 176	-	450 254 176	619 810 274	169 556 098	
Non-Current Assets						
Long term receivables	177 657	-	177 657	172 941	(4 716)	
Property, plant and equipment	2 594 427 219	(49 834 463)	2 544 592 756	2 278 977 824	(265 614 932)	43.9
Intangible assets	10 250 177	(1 216 489)	9 033 688	4 028 808	(5 004 880)	43.9
Heritage assets	-	-	-	700 000	700 000	43.9
Investments in municipal entities	-	-	-	688 134	688 134	43.10
Investments in financial asset - shares	-	-	-	79 600	79 600	
	2 604 855 053	(51 050 952)	2 553 804 101	2 284 647 307	(269 156 794)	
Total Assets	3 055 109 229	(51 050 952)	3 004 058 277	2 904 457 581	(99 600 696)	
Liabilities						
Current Liabilities						
Current portion of long term liabilities	5 928 341	-	5 928 341	5 928 341	-	
Payables from exchange transactions	107 634 757	-	107 634 757	256 888 395	149 253 638	43.11
Consumer deposits	11 520 410	-	11 520 410	10 011 629	(1 508 781)	43.12
Defined employee benefit obligations	-	-	-	938 000	938 000	43.13
Provisions	1 676 796	-	1 676 796	738 079	(938 717)	43.14
Unspent conditional grants and receipts	-	-	-	2 940 553	2 940 553	43.15
	126 760 304	-	126 760 304	277 444 997	150 684 693	
Non-Current Liabilities						
Long term liabilities	38 533 314	-	38 533 314	38 533 314	-	
Defined employee benefit obligations	28 628 227	-	28 628 227	31 470 000	2 841 773	43.13
Provisions	84 370 447	-	84 370 447	73 569 215	(10 801 232)	43.14
	151 531 988	-	151 531 988	143 572 529	(7 959 459)	
Total Liabilities	278 292 292	-	278 292 292	421 017 526	142 725 234	
Net Assets	2 776 816 937	(51 050 952)	2 725 765 985	2 483 440 055	(242 325 930)	
Reserves						
Accumulated surplus	2 776 816 937	(51 050 952)	2 725 765 985	2 483 440 055	(242 325 930)	

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Receipts from consumers and other	84 377 007	(7 178 685)	77 198 322	93 033 527	15 835 205	43.16
Grants	813 283 000	1 507 000	814 790 000	792 855 855	(21 934 145)	
Interest income	38 143 623	4 200 000	42 343 623	46 638 976	4 295 353	43.17
	935 803 630	(1 471 685)	934 331 945	932 528 358	(1 803 587)	
Payments						
Employee costs	(241 843 031)	18 876 561	(222 966 470)	(201 960 285)	21 006 185	
Suppliers	(403 557 147)	(133 478 090)	(537 035 237)	(519 189 645)	17 845 592	
Finance costs	(6 432 321)	-	(6 432 321)	(6 432 319)	2	
Transfers and subsidies	(8 587 500)	-	(8 587 500)	(11 519 719)	(2 932 219)	43.18
	(660 419 999)	(114 601 529)	(775 021 528)	(739 101 968)	35 919 560	
Net cash flows from operating activities	275 383 631	(116 073 214)	159 310 417	193 426 390	34 115 973	
Cash flows from investing activities						
Payment for property, plant, equipment	(326 101 835)	51 051 612	(275 050 223)	(193 669 551)	81 380 672	43.19
Insurance proceeds and proceeds from the sale of property, plant and equipment	-	-	-	251 910	251 910	
Decrease in non-current/current receivables	142 938	-	142 938	43 794	(99 144)	
Distribution of capital received from municipal entities	6 078 977	-	6 078 977	5 478 228	(600 749)	43.20
Net cash flows from investing activities	(319 879 920)	51 051 612	(268 828 308)	(187 895 619)	80 932 689	
Cash flows from financing activities						
Repayment of long-term liabilities	(10 605 496)	-	(10 605 496)	(10 605 497)	(1)	
Increase/(Decrease) in consumer deposits	1 047 310	-	1 047 310	-	(1 047 310)	43.21
Net cash flows from financing activities	(9 558 186)	-	(9 558 186)	(10 605 497)	(1 047 311)	
Net decrease in cash and cash equivalents	(54 054 475)	(65 021 602)	(119 076 077)	(5 074 726)	114 001 351	
Cash and cash equivalents at the beginning of the year	303 426 000	199 931 452	503 357 452	503 357 452	-	
Cash and cash equivalents at the end of the year	249 371 525	134 909 850	384 281 375	498 282 726	114 001 351	

ACCOUNTING POLICIES

1. Presentation of annual financial statements

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

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand and the figures in the statements have been rounded to the nearest rand. Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

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

1.1 Significant judgements and sources of estimation uncertainty

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

1.1.1 Provisions

Management determined an estimate for provisions raised based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Current and Non - Current Provisions.

1.1.2 Useful lives of property, plant, equipment and intangible assets

As described in accounting policies 1.6 & 1.8 the municipality depreciates/amortises its property, plant and equipment and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets become available for use. The useful lives and residual values of the assets are based on industry knowledge and are reviewed annually.

1.1.3 Defined benefit plan liabilities

As described in accounting policy 1.4, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are post retirement health benefit obligations and long service awards. The estimated liabilities are recorded in accordance with the requirements of GRAP 25.

Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in note 16 to the financial statements.

1.1.4 Revenue recognition

Accounting policy 1.14 on Revenue from Exchange Transactions and accounting policy 1.15 on Revenue from Non - Exchange Transactions describes the conditions under which revenue is recorded by the management of the municipality. In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9 Revenue from Exchange Transactions and GRAP 23 Revenue from Non Exchange Transactions and in particular, whether the service has been rendered. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

1.1.5 Financial assets and liabilities

The classification of financial assets and liabilities, into categories, is outlined in 1.3 below and is based in managements educated judgement.

ACCOUNTING POLICIES

1.2 New standards and interpretations

Changes in accounting policies that are effected by management are applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of a change in policy. In such cases, the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

The following new GRAP standards have been approved but are not yet effective

GRAP 20 - Related party disclosure

This standard of GRAP on related parties replaces the IPSAS 20 standard on related party disclosure. No significant impact on the financial statements of the Municipality is expected.

GRAP 32 - Service concession arrangements: Grantor

This standard of GRAP is to prescribe the accounting for service concession arrangements by the grantor, a public sector entity. A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time and the operator is compensated for its services over the period of the service concession arrangement. Although unlikely at this stage, the standard is only expected to have an impact on the Municipality in the event of any future such arrangements.

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 municipality / entity prepares separate financial statements. The standard is expected to have an impact on the Municipality as the Municipality currently has entities that require consolidations.

GRAP 35 – Consolidated financial statements

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

To meet the objective in paragraph .01, this Standard:

- (a) requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
- (b) defines the principle of control, and establishes control as the basis for consolidation;
- (c) sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;
- (d) sets out the accounting requirements for the preparation of consolidated financial statements; and
- (e) defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

The standard is expected to have an impact on the Municipality as the Municipality currently has entities which it consolidates.

ACCOUNTING POLICIES

GRAP 108 - Statutory receivables

This standard deals with the prescribed accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables and the effect thereof.

GRAP 109 - Accounting by principals and agents

This standard deals with the prescribed accounting requirements for transactions in a principal and agent relationship. No significant impact on the financial statements of the Municipality is expected.

GRAP 110 - Living and non-living resources

This standard prescribes recognition, measurement, presentation and disclosure requirements for living resources – Living resources are those resources that undergo biological transformation. The standard further prescribes disclosure requirements for non-living resources – Non-living resources are those resources, other than living resources, that occur naturally and have not been extracted.

No significant impact on the financial statements of the Municipality is expected as the Municipality does not anticipate that such resources will become part of the Districts mandate.

Interpretations of the standards of GRAP

IGRAP 17: Service concession arrangements where a grantor controls a significant residual interest in an asset

This Interpretation provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease.

It is unlikely that the interpretation will have a material impact on the municipalities financial statements.

IGRAP 18 - Recognition and de recognition of land

The objective of this standard is to provide guidance on when an entity should recognise and derecognise land as its asset. It is only applicable to land. It considers structures separately and applies applicable GRAP to land once control is assessed.

It is unlikely that the interpretation will have a material impact on the municipalities financial statements.

IGRAP 19 - Liabilities to pay levies

The objective is to provide guidance on the accounting for levies in the financial statements of the entity that is paying the levy. It clarifies when entities need to recognise a liability to pay a levy that is accounted for in accordance with GRAP 19.

It is unlikely that the interpretation will have a material impact on the municipalities financial statements.

The following approved standards of GRAP that entities are not required to apply

GRAP 18 - Segmental reporting (Municipalities and municipal entities are not required to apply)

Compliance with this standard would have had an effect on the presentation only. Financial information would have been reported by segments.

The disclosure of this information will assist users of the financial statements to better understand the municipality's historical performance and to identify the resources allocated to support the major activities of the municipality.

ACCOUNTING POLICIES

1.3 Financial instruments

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

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

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

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

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

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

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

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

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or the municipality have transferred its right to receive cash flows from the asset. A financial liabilities is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability. Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

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

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

ACCOUNTING POLICIES

A financial asset is:

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

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

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

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

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

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

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

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

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

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

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

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

- combined instruments that are designated at fair value.

ACCOUNTING POLICIES

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the Statement of Financial Position or in the notes thereto:

Class

Cash and cash equivalents
Finance lease receivables
Long term receivables
Accounts receivable from exchange transactions
Accounts receivable from non exchange transactions
Short term investment deposits
Investment in fixed deposits
Investment in municipal entities
Investment in financial asset shares

Category

Financial asset measured at amortised cost
Financial asset measured at amortised cost
Financial asset measured at amortised cost
Financial asset measured at amortised cost
Financial asset measured at amortised cost
Financial asset measured at amortised cost
Financial asset measured at amortised cost
Financial asset measured at amortised cost
Financial asset measured at fair value

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

Class

Long term liabilities
Payables from exchange transactions
Bank overdraft
Short term loans
Current portion of long term liabilities
Consumer deposits

Category

Financial liability measured at amortised cost
Financial liability measured at amortised cost
Financial liability measured at amortised cost
Financial liability measured at amortised cost
Financial liability measured at amortised cost
Financial liability measured at amortised cost

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs are added to financial instruments carried at amortised cost or cost.

ACCOUNTING POLICIES

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following category:

- Financial instruments at amortised cost.

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Investment in municipal entities

In the municipality's annual financial statements, investments in the municipal entities are carried at amortised cost at reporting date.

1.4 Employee benefits

1.4.1 Short-term employee benefits

Remuneration to employees is recognised in the statement of financial performance as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The municipality has opted to treat its provision for leave pay as an accrual, included under current liabilities.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is included in payables from exchange transactions.

1.4.2 Defined contribution plans

A defined contribution plan is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those funds. Contributions are recognised in the statement of financial performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid.

ACCOUNTING POLICIES

1.4.3 Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

Post-retirement health care benefits

The municipality has an obligation to provide post-retirement health care benefits to certain of its retirees. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the medical aid fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Long-service allowance

The municipality has an obligation to provide long-service allowance benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25, 30, 35, 40 and 45 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method is used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

Defined benefit plans

The municipality contributes to various defined benefit plans on behalf of its qualifying employees. These funds are multi-employer funds (refer to Note 16 of the Annual Financial Statements for details). The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. These defined benefit funds are actuarially valued triennially on the discounted cash method basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

These contributions are recognised in the statement of financial performance when employees have rendered the service entitling them to the contribution.

1.5 Provisions

Provisions are recognised when:

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

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

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

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

Provision for the rehabilitation of the refuse landfill site is determined at best estimate by consulting engineers.

ACCOUNTING POLICIES

1.6 Property, plant and equipment

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

Initial recognition

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

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

Property, plant and equipment is initially recognised at cost on its acquisition date or in the case of assets acquired at nil or nominal consideration the deemed cost, being the fair value of the assets at acquisition date.

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 municipality. Trade discounts and rebates are deducted in arriving at the cost.

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

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

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

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

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

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment. Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Subsequent measurement

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic fair value of the subsequent expenditure can be reliably measured.

Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity for future economic benefits associated with the asset.

Where the municipality replaces part of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

ACCOUNTING POLICIES

Subsequent measurement of all property, plant and equipment are measured at cost, less accumulated depreciation and any accumulated impairment losses. The municipality does not recognise in the carrying amount of an item of property, plant and equipment the cost of day to day servicing of the item.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when compensation becomes receivable.

Depreciation

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

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

Land, with the exception of landfill sites and cemetery, is not depreciated as it is regarded as having an infinite life. If the cost of the land includes the cost of site dismantlement, removal and restoration, that portion of the land asset is depreciated over the period of benefits or service potential, obtained by incurring those costs. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost to their residual values over the estimated useful lives of the asset. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

ACCOUNTING POLICIES

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

Item	Depreciation method	Average useful life
Buildings	Straight line	30 years
• Other buildings		30 years
• Permanent		
Plant and Equipment	Straight line	
• Weed eater		2 years
• Lawn mower		2 years
• Other		5 years
• Skid mounted fire response unit		15 years
Furniture	Straight line	10 years
Computer equipment	Straight line	5 years
Infrastructure - plant and equipment	Straight line	
• Heavy duty infrastructure pumps		15 years
• Unspecified infrastructure assets		15 years
• Standby generator sets - water sewerage camps		15 years
Infrastructure - sewage services	Straight line	
• Sewerage containment		50 years
• Sewerage network		50 years
• Sewerage purification		50 years
Infrastructure - solid waste cell services	Straight line	
• Solid waste cell		15 years
• Cemetery		15 years
Infrastructure water services	Straight line	
• Small schemes		20 years
• Water abstraction		20 years
• Water network		20 years
• Water purification		20 years
• Water storage		50 years
Equipment	Straight line	
• Office equipment		5 years
Motor vehicles	Straight line	
• Bakkie, LDV, Sedan and tanker		7 years
• Truck		7 years
• Trailer and caravan		5 years
• Forklift		5 years
• Tractors		15 years

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

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

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

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

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

ACCOUNTING POLICIES

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

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

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 8).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 8).

1.7 Heritage assets

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

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

Impairment

Heritage assets are not depreciated but the municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Heritage assets which are shown at cost, are not depreciated due to the uncertainty regarding their estimated useful lives, as reflected below:

Item	Useful life
Memorial and statues	Indefinite life

ACCOUNTING POLICIES

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises a heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the item is derecognised.

1.8 Intangible assets

An asset is identifiable if it either:

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

Initial recognition

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost shall be measured at its fair value as at the date of acquisition.

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

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

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

Subsequent measurement, amortisation and impairment

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

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

ACCOUNTING POLICIES

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

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

Item	Useful life
Computer software, other	3 years

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

1.9 Investments in financial asset - shares

An investment in a financial asset - shares is carried at fair value at each reporting date.

The municipality recognises a dividend or similar distribution in surplus or deficit in its separate annual financial statements when its right to receive the dividend or similar distribution is established.

1.10 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

Useful life is the period of time over which an asset is expected to be used by the municipality.

Identification of impairment

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

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

ACCOUNTING POLICIES

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

1.11 Leases

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

1.11.1 Finance leases - The municipality as a lessee

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

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

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

1.11.2 Operating leases - The municipality as a lessee

Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Financial Performance on a straight line basis over the period of the lease.

1.12 Inventories

Inventories comprise of current assets held for consumption or distribution during the ordinary course of business.

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and, net realisable value or current replacement cost.

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

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

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

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

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

ACCOUNTING POLICIES

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

1.13 Tax

Tax Expense:

The municipality is exempt from income tax in terms of section 10(1)(A) of the Income Tax Act.

Value-Added Tax (VAT):

The municipality accounts for VAT on the accrual basis, based on the approval received from the Commissioner for South African Revenue Services to an application by the Municipality, permission has been given to remit or claim for value - added tax on the payments basis for debtors and creditors.

1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

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

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

Measurement

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

Rendering of services

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

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

ACCOUNTING POLICIES

Service charges relating to water are based on consumption. Meters are read on a monthly basis and when the meter is not read provisional estimates are made and based on those readings the revenue is invoiced monthly and recognised. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Service charges relating to refuse are recognised on a monthly basis in arrears and on an accrual basis by applying the approved tariff to each consumer that makes use of the landfill site.

Service charges from sanitation are raised on a monthly basis in accordance with the approved tariffs.

Interest and rentals are recognised on a time proportion basis.

1.15 Revenue from non-exchange transactions

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

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

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

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

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

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

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes. Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any conditions associated with the grant.

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

Revenue from public contributions 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 are brought into use. Where public contributions have been received but the municipality has not met the conditions, a liability is recognised.

ACCOUNTING POLICIES

Measurement

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

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

1.16 Grants in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time.

When making these transfers, the municipality does not:

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

These transfers are recognised in the Statement of Financial Performance as expenses in the period that the events giving rise to the transfer occurred.

1.17 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is suspended.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the municipality ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

ACCOUNTING POLICIES

1.18 Budget information

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

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

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts. Refer to note 43.

1.19 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, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (No. 56 of 2003). All unauthorised expenditure is recognised as an expense in the Statement of Financial Performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.20 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All fruitless and wasteful expenditure is recognised as an expense in the Statement of Financial Performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.21 Irregular expenditure

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

1.22 Commitments

Items are classified as commitments where the municipality commits itself to future transactions that will result in the future outflow of resources. Capital commitments are not recognised in the statement of Financial Position as a liability but are included in the disclosure note 34, for approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date.

1.23 Related parties

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

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

ACCOUNTING POLICIES

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

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed. The municipality applies GRAP 20 for related parties.

1.24 Comparative figures

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

1.25 Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

1.26 Going concern assumption

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

1.27 Events after reporting date

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

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

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

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

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
2. Inventories		
Consumable and maintenance materials	4 422 958	8 522 753
Water stock	1 613 212	1 476 997
	<u>6 036 170</u>	<u>9 999 750</u>
Inventories (written-down)	-	(4 268 825)
	<u>6 036 170</u>	<u>5 730 925</u>
 Inventories recognised as an expense during the year.	 3 566 129	 3 587 083
<u>2016/2017</u>		
Conventional water meter inventory with a cost of R4 268 825 was written down to the net realisable value of nil. The write off identified by management was as a result of due consideration to the municipalities strategy regarding smart metering systems incorporating prepaid technology.		
Inventory pledged as security		
No inventory was pledged as security.		
3. Receivables from exchange transactions - consumer debtors		
Gross balances		
Water	59 932 993	52 874 427
Solid waste	3 966 493	2 743 787
Sanitation	8 009 996	8 195 324
	<u>71 909 482</u>	<u>63 813 538</u>
Less: Allowance for impairment		
Water	(29 164 517)	(32 418 463)
Solid waste	(741 256)	(382 841)
Sanitation	(4 738 418)	(6 056 799)
	<u>(34 644 191)</u>	<u>(38 858 103)</u>
Net balance		
Water	30 768 476	20 455 964
Solid waste	3 225 237	2 360 946
Sanitation	3 271 578	2 138 525
	<u>37 265 291</u>	<u>24 955 435</u>

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
Summary of debtors by service type		
Water		
Current (0 - 30 days)	7 392 228	6 024 025
31 - 60 days	3 822 409	2 317 753
61 - 90 days	3 988 092	1 610 517
91 - 120 days	1 331 702	1 382 457
> 120 days	43 398 562	41 539 675
Less: Allowance for impairment	(29 164 517)	(32 418 463)
	30 768 476	20 455 964
Solid waste		
Current (0 - 30 days)	3 039 909	1 829 038
31 - 60 days	8 709	202 861
61 - 90 days	107 473	214 837
91 - 120 days	4 653	75 348
> 120 days	805 747	421 703
Less: Allowance for impairment	(741 254)	(382 841)
	3 225 237	2 360 946
Sanitation		
Current (0 - 30 days)	630 062	618 430
31 - 60 days	327 432	314 318
61 - 90 days	228 885	230 466
91 - 120 days	210 108	220 309
> 120 days	6 613 511	6 811 801
Less: Allowance for impairment	(4 738 420)	(6 056 799)
	3 271 578	2 138 525
Summary of debtors by customer classification		
Domestic Consumers		
Current (0 - 30 days)	5 572 417	2 322 736
31 - 60 days	1 791 739	1 581 367
61 - 90 days	3 539 681	1 274 967
91 - 120 days	953 785	1 333 408
> 120 days	42 340 561	43 428 436
	54 198 183	49 940 914
Less: Allowance for impairment	(33 902 936)	(38 475 263)
	20 295 247	11 465 651
Industrial/Commercial Consumers		
Current (0 - 30 days)	3 455 431	4 111 490
31 - 60 days	1 345 913	497 222
61 - 90 days	229 239	316 235
91 - 120 days	241 157	189 017
> 120 days	3 447 287	2 782 451
	8 719 027	7 896 415
Less: Allowance for impairment	(741 255)	(382 840)
	7 977 772	7 513 575

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
National and Provincial Government Consumers		
Current (0 - 30 days)	2 034 350	2 037 256
31 - 60 days	1 020 898	756 343
61 - 90 days	555 530	464 618
91 - 120 days	351 521	155 689
> 120 days	5 029 973	2 562 292
	8 992 272	5 976 198
Total		
Current (0 - 30 days)	11 062 198	8 471 493
31 - 60 days	4 158 550	2 834 932
61 - 90 days	4 324 450	2 055 820
91 - 120 days	1 546 463	1 678 114
> 120 days	50 817 821	48 773 179
	71 909 482	63 813 538
Less: Allowance for impairment	(34 644 191)	(38 858 103)
	37 265 291	24 955 435
Less: Allowance for impairment		
Current (0 - 30 days)	(1 572 123)	(1 665 572)
31 - 60 days	(730 278)	(872 569)
61 - 90 days	(751 944)	(930 389)
91 - 120 days	(780 337)	(783 288)
> 120 days	(30 809 509)	(34 606 285)
	(34 644 191)	(38 858 103)
Reconciliation of allowance for impairment		
Balance at beginning of the year	(38 858 103)	(41 623 127)
Contributions to allowance	(5 317 989)	(8 390 418)
Debt impairment written off against allowance	9 531 901	11 155 442
	(34 644 191)	(38 858 103)

In the determination of the amounts deemed to be impaired at financial year end, an analysis of each debtor is undertaken. The debtors are classified into one of three categories.

Category A Regular payers, government accounts, consumers with amounts owing not older than 60 days.

Category B Irregular payers.

Category C Indigent customers, customers with debts older than 60 days with no payments made within the last 6 months and inactive accounts.

The value of the provision is determined for the detailed categories as follows:

Category A 0% of consumer's total debt
 Category B 50% of consumer's debt less or equal to 180 days
 100% of consumer's debt > than 180 days
 Category C 100% of consumer's total debt

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
4. Receivables from exchange transaction - VAT		
VAT receivable	59 232 227	47 342 547
Refer to note 38 for full disclosure.		
5. Receivables from non-exchange transactions		
Employee, councillor account transactions	365 823	411 492
Deposits	7 402 459	7 155 320
Grant debtors	1 296 919	23 734 145
uMhlathuze Municipality	1 212 559	1 212 559
Payments in advance	3 861 253	3 062 988
Investment interest accrual	4 807 075	4 503 579
	18 946 088	40 080 083

2017/2018

Grant debtors:

In the 2017/2018 financial year, a grant debtor was raised for Municipal Infrastructure Grant amounting to R1 296 919. Refer to note 21.

2016/2017

Grant debtors:

In the 2016/2017 financial year, grant debtors were raised for the Department of Water and Sanitation and Municipal Infrastructure Grant amounting to R16 946 704 and R6 787 441 respectively, amongst others, which were received in the 2017/2018 period under review. Refer to note 21.

uMhlathuze Municipality:

In the 2016/2017 financial year, a debtor amounting to R1 212 559 was raised as a result of the Ntambanana disestablishment and section 12 split notice. Refer to note 47.

Debt impairment - exchange and non-exchange transactions

2017/2018

As at 30 June 2018, the total debt impairment as recognised in the statement of financial performance for receivables from exchange transactions amounted to R5 317 989.

2016/2017

In 2014/2015 the debtor for uMhlathuze Municipality was fully impaired at R4 869 359. In the 2016/2017 year an amount of R913 790 was recovered and the impairment reversed. The remaining amount of R3 955 569 had been written off in the year.

Debt impairment - receivables from exchange transactions	5 317 989	8 390 418
Debt impairment - receivables from non-exchange transactions	-	3 955 569
	5 317 989	12 345 987

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
6. Long term receivables		
Staff home loans	172 941	221 524
Current portion of long term receivables	47 772	42 983
Non-current long term receivables	172 941	221 524
	220 713	264 507

Staff home loans

Housing loans were granted to qualifying staff prior to 1 July 2004. These loans attract interest per the fringe benefit interest rate as determined by the South African Revenue Services annually. These loans will be repayable in accordance with the home loan agreements.

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
7. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	3 800	3 800
Cash book balances	148 278 926	198 353 652
Call Investment deposits	350 000 000	305 000 000
	498 282 726	503 357 452

Call Investment deposits portfolio is detailed below:

2017/2018

<u>Financial Institution</u>	<u>Maturity Date</u>	<u>Investment</u>
ABSA	06/08/2018	R 25 000 000
NEDBANK	14/09/2018	R 60 000 000
STANDARD BANK	ON CALL	R 20 000 000
STANDARD BANK	03/07/2018	R 70 000 000
STANDARD BANK	02/08/2018	R100 000 000
INVESTEC	18/07/2018	R 50 000 000
INVESTEC	04/09/2018	R 25 000 000
TOTAL		<u>R350 000 000</u>

2016/2017

NEDBANK	26/07/2017	R 70 000 000
NEDBANK	01/08/2017	R 20 000 000
STANDARD BANK	ON CALL	R 20 000 000
STANDARD BANK	03/07/2017	R 15 000 000
INVESTEC	13/07/2017	R 50 000 000
INVESTEC	24/07/2017	R 25 000 000
INVESTEC	22/08/2017	R 25 000 000
INVESTEC	29/08/2017	R 40 000 000
INVESTEC	28/09/2017	R 40 000 000
TOTAL		<u>R305 000 000</u>

An average interest rate of 7.71% and 7.78% was received on investments placed for the 2017/2018 and 2016/2017 financial year respectively. The detailed investment register is available at the registered office of the municipality.

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

The municipality has the following bank accounts

Account description/number	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
NEDBANK - Primary Account Account No. 145 408 8885	115 472 330	141 689 390	93 170 349	115 441 207	141 660 059	93 130 177
Other accounts NEDBANK - Account No. 145 408 8893	3 226 768	1 468 723	2 319 220	2 862 736	1 208 083	2 166 735
NEDBANK - Account No. 145 408 9016	29 974 983	55 485 510	2 514 756	29 974 983	55 485 510	(12 764 216)
NEDBANK - Account No. 145 408 8907	-	-	12 028	-	-	12 028
NEDBANK - Account No. 145 409 4141	-	-	8 801	-	-	8 801
Total	148 674 081	198 643 623	98 025 154	148 278 926	198 353 652	82 553 525

In the 2016/2017 financial year the following bank accounts had been closed due to operational reasons, Account numbers 145 408 8907 and 145 409 4141.

Detailed bank reconciliation's in support of cash book balances are available at the registered office of the municipality.

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

8. Property, plant and equipment

	June 2018			June 2017 Reststaed		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Community assets	14 840 803	(2 868 505)	11 972 298	14 840 804	(2 362 429)	12 478 375
Assets under construction	903 149 139	-	903 149 139	951 543 505	-	951 543 505
Infrastructure	1 736 985 881	(450 590 184)	1 286 395 697	1 507 139 557	(391 362 399)	1 115 777 158
Other assets	120 948 067	(43 487 377)	77 460 690	112 051 561	(36 067 425)	75 984 136
Total	2 775 923 890	(496 946 066)	2 278 977 824	2 585 575 427	(429 792 253)	2 155 783 174

Reconciliation of property, plant and equipment - June 2018

	Opening carrying value	Additions	Disposals	Transfers	Donations	Depreciation and impairment	Total
Community Assets	12 478 375	-	-	-	-	(506 077)	11 972 298
Assets under construction	951 543 505	164 497 941	-	(213 387 307)	495 000	-	903 149 139
Infrastructure	1 115 777 158	16 473 421	(12 346)	213 387 307	-	(59 229 843)	1 286 395 697
Other assets	75 984 136	5 100 262	(1 320 877)	-	6 428 779	(8 731 610)	77 460 690
Total	2 155 783 174	186 071 624	(1 333 223)	-	6 923 779	(68 467 530)	2 278 977 824

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

Reconciliation of property, plant and equipment - June 2017 restated

	Opening carrying value	Additions	Disposals	Transfers	Donations	Depreciation	Total
Community assets	11 969 206	-	-	991 613	-	(482 444)	12 478 375
Assets under construction	732 590 198	360 672 778	-	(141 719 471)	-	-	951 543 505
Infrastructure	1 035 827 131	89 310	-	140 727 858	(5 624 601)	(55 242 540)	1 115 777 158
Other assets	72 870 781	8 014 739	(114 976)	-	(16 924)	(4 769 484)	75 984 136
	1 853 257 316	368 776 827	(114 976)	-	(5 641 525)	(60 494 468)	2 155 783 174

Repairs and maintenance

	June 2018	June 2017
Other assets	4 241 392	1 760 899
Infrastructure	158 119 194	77 362 148
	162 360 586	79 123 047

A register containing the information required by section 63 of the Municipal Finance Management Act (No. 56 of 2003) is available for inspection at the registered office of the municipality.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

2017/2018

No assets have been pledged as security nor have any restrictions been placed on any assets under the control of the municipality and additions disclosed are inclusive of accruals.

The municipality received donated assets from a service provider and the Department of Water Affairs with a cost of R8 773 830 and a carrying value of R6 428 779. A further donation of assets was received from the Department of Cooperative Governance and Traditional Affairs amounting to R495 000 being the cost thereof.

2016/2017

MSCOA reclassifications:

The municipality implemented MSCOA effective 1 July 2017 and as such in order to ensure alignment therewith, the previously reported classes have been reclassified from buildings, land, infrastructure under construction, infrastructure, other assets - assets under construction and other assets to community assets, assets under construction, infrastructure and other assets - refer to note 41 for further disclosures.

Depreciation and accumulated depreciation adjustment:

The municipality accounted for depreciation pertaining to fully depreciated assets still in use - refer to note 41 and 42.

Infrastructure assets with a cost value of R8 757 243 and carrying value of R5 624 601 for Wards 5, 6, 7 and 8 of Ntambanana Municipality were transferred to uMhlathuze Local Municipality on the 10 August 2016. Refer to note 31 and 40.

Other assets with a cost of R28 616 and a carrying value of R16 924 were donated to the municipal entity, King Cetshwayo Fresh Produce Market Pty on 30 June 2017. Refer to note 31 and 40.

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

9. Intangible assets

	June 2018			June 2017 Reststaed		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software and other	6 345 654	(2 316 846)	4 028 808	5 317 218	(1 863 874)	3 453 344

Reconciliation of intangible assets - June 2018

	Opening carrying value	Additions	Amortisation	Total
Computer software & other	3 453 344	1 171 632	(596 168)	4 028 808

Reconciliation of intangible assets - June 2017

	Opening carrying value	Additions	Amortisation	Total
Computer software & other	2 081 454	1 821 754	(449 864)	3 453 344

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

10. Heritage assets

	June 2018			June 2017 Reststaed		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical monuments	700 000	-	700 000	700 000	-	700 000

Reconciliation of heritage assets - June 2018

	Opening balance	Total
Historical monuments	700 000	700 000

Reconciliation of heritage assets - June 2017

	Opening balance	Additions	Total
Historical monuments	-	700 000	700 000

Heritage monuments

2016/2017

The municipality commissioned a historical monument of King Cetshwayo and as such deemed this as a cultural heritage asset.

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand			2018	2017
11. Investments in municipal entities				
	%	%	Carrying	Carrying
	holding	holding	amount	amount
	June	June	June 2018	June 2017
	2018	2017		
uThungulu Financing Partnership	99,00 %	99,00 %	-	5 478 224
uThungulu House Development Trust	100,00 %	100,00 %	687 134	650 169
King Cetshwayo Fresh Produce Market Pty	100,00 %	100,00 %	1 000	1 000
			688 134	6 129 393

The carrying amounts of municipal entities are shown net of impairment losses. Refer to note 40.

The Uthungulu Fresh Produce Market Pty changed their name to align to the name change of the District municipality and hence their new name is King Cetshwayo Fresh Produce Market Pty(KCFPM).

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017			
12. Investments in financial asset - shares					
Name of entity	Listed / Unlisted	No. of shares June 2018	No. of shares June 2017	Fair Value June 2018	Fair Value June 2017
Sanlam Limited	Listed	1136	1136	79 600	73 613

Fair value adjustment

The fair values are determined annually at end of a financial year.

- The fair values of listed or quoted investments are based on the quoted market share price.

Reconciliation of fair value adjustment in 2017/2018

Share price as at 30 June 2017 R64.80
Share price as at 30 June 2018 R70.07

Share value as at 30 June 2017 R73 613
Share value as at 30 June 2018 R79 600
Gain on fair value adjustment R 5 987

Reconciliation of fair value adjustment in 2016/2017

Share price as at 30 June 2016 R60.36
Share price as at 30 June 2017 R64.80

Share value as at 30 June 2016 R68 569
Share value as at 30 June 2017 R73 613
Gain on fair value adjustment R 5 044

The municipality was one of numerous municipalities who became incidental shareholders in Sanlam Limited as a result of a demutualisation process undertaken by Sanlam Limited in 1998.

The shares in Sanlam Limited are measured at fair value with reference to quoted prices on the Johannesburg Stock Exchange as at each reporting date and the transactions has been applied accordingly.

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
13. Long term liabilities		
At amortised cost		
ABSA Bank 12.6%	28 393 087	31 413 953
The loan was raised originally for the development of the King Cetshwayo House building and the greater Mthonjaneni Bulk Water Scheme. Subsequently infrastructure for the landfill site and sewer treatment plants were constructed there from. The original loan is repayable after a 14 year period (remaining period 6 years). Interest at 12.6% is payable 6 monthly in arrears on the last day of the month.		
INCA 11.95%	16 068 568	18 307 836
The loan was raised to finance extensions to King Cetshwayo House and the development of the Regional Solid Waste Site cell 2. The original loan is repayable after a 14 year period (remaining period 5 years). Interest at 11.95% is payable 6 monthly in arrears on the last day of the month.		
Obligation under Finance Headlease	-	5 345 363
The finance headlease payments represent payments by the municipality for a headlease property in which the municipality has a controlling interest at the end of the lease through Uthungulu Financing Partnership and consists of a lease over Portion 2 of ERF 10033 Richards Bay, 2 Haiti, Central Business District, known as King Cetshwayo House. The original lease period expired on 31 October 2017 wherein the last payment was made and the ownership of the property vested in the municipality. The yield to maturity on the lease was 23.81% and was paid 6 monthly in advance on the last day of the month. The municipality has consulted Councils attorney's regarding the different options in terms of the dissolution of the Trust and Partnership. Council has taken a resolution to dissolve the Trust which is administrating the building and the subsequent processes will be initiated in the 2018/2019 financial year.		
Long term liabilities	44 461 655	55 067 152
Non-current liabilities		
At amortised cost	38 533 314	44 461 655
Current liabilities		
At amortised cost	5 928 341	10 605 497
Finance lease		
Obligations under finance lease		
- not later than one year	-	5 787 334
less future finance charges	-	(441 973)
	-	5 345 361
Present value of minimum lease payments		
- not later than one year	-	5 345 361

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
14. Payables from exchange transactions		
Accrued leave pay	12 681 180	10 532 205
Amounts received in advance	5 399 600	4 303 512
Employee payable transactions uMhlathuze Municipality	-	84 733
	37 561	37 561
Retention payables	55 935 803	55 299 844
Trade payables	182 834 251	159 603 759
	256 888 395	229 861 614

Payables are settled in terms of legislation, except for retentions which are settled in terms of the contract agreement. Payments received in advance are non interest bearing.

2017/2018

Employee payable transactions:

Due to the implementation of MSCOA, in the 2017/2018 financial year, the transactions pertaining to employee payables has been incorporated into the municipal age analysis.

2016/2017

uMhlathuze municipality:

A liability had been raised in favour of uMhlathuze Municipality, as a result of the disestablishment of Ntambanana Municipality. The amount relates to transferred consumer debtor accounts with payments made in advance.

15. Consumer deposits

Water	10 011 629	10 386 568
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In terms of Council's by-laws no interest is raised or paid on consumer deposits.

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
------------------------	-------------	-------------

16. Defined employee benefit obligations

Defined benefit plan

Post retirement health care benefit liability

The municipality provides certain post retirement medical benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current condition of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The most recent actuarial valuations of the unfunded defined benefit obligation was carried out as at 30 June 2018 by PWC, a member of the Actuarial Society of South Africa.

The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit funding method.

No other post retirement benefits are provided by the municipality.

The municipality makes monthly contributions to the following medical aid schemes;

- Bonitas
- Keyhealth
- Hosmed
- Samwumed
- LA Health

The post employment health care benefit plan is a defined benefit plan, of which the members are made up of 314 in service members employees (2017 - 284) and 4 continuation members - retirees, widowers and orphans (2017 - 4).

Estimated liability in respect of past services

In service members (Employees)	23 678 000	22 166 000
Continuation members (Retirees, widowers and orphans)	2 275 000	2 226 000
	25 953 000	24 392 000

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
------------------------	-------------	-------------

Long service awards

A long service award is granted to municipal employees per the policy after the completion of fixed periods of continuous service with the municipality which includes their uninterrupted service with the former Local Authorities amalgamated in December 2000. The said award comprises a certain number of vacation leave days which, in accordance with the option exercised by the beneficiary employee, can be converted into an amount based on his or her basic salary applicable at the time the award became due or, alternatively, credited to his or her vacation leave accrual.

The provision represents an estimation of the awards to which employees in the service of the municipality at 30 June 2018 may become entitled to in future, based on actuarial valuation performed at that date.

The most recent actuarial valuations of the unfunded defined benefit obligation was carried out as at 30 June 2018 by PWC, a member of the Actuarial Society of South Africa.

The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit funding method.

No other long service benefits are provided by the municipality.

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

Carrying value

Present value of the defined benefit obligation-post employment medical aid benefits	(25 953 000)	(24 392 000)
Present value of the defined benefit obligation-long service awards	(6 455 000)	(6 447 000)
	(32 408 000)	(30 839 000)
Non-current liabilities	(31 470 000)	(30 043 000)
Current liabilities	(938 000)	(796 000)
	(32 408 000)	(30 839 000)

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

Opening balance	30 839 000	27 290 000
Net expense recognised in the statement of financial performance - total included in employee related costs	1 569 000	3 549 000
	32 408 000	30 839 000

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
Net expense recognised in the statement of financial performance		
Post employment medical aid benefit - current service cost	1 710 000	1 731 000
Long service awards - current service cost	764 000	687 000
Post employment medical aid benefit - interest cost	2 642 000	2 296 000
Long service awards - interest cost	585 000	519 000
Post employment medical aid benefit - actuarial loss / (gain)	(2 636 876)	(1 834 774)
Long service awards - actuarial loss / (gain)	(862 897)	932 913
Post employment medical aid benefit - benefits paid	(154 124)	(140 226)
Long service awards - benefits paid	(478 103)	(641 913)
	1 569 000	3 549 000

Calculation of actuarial gains and losses

Post employment medical aid benefit - actuarial loss / (gain)	(2 636 876)	(1 834 774)
Long service awards - actuarial loss / (gain)	(862 897)	932 913
	(3 499 773)	(901 861)

Expected future service and interest costs

Post employment medical aid benefits

Based on the most recent actuarial valuation as at 30 June 2018, the future service cost for the 2018/2019 financial year was established to be R2 399 000, whereas the interest cost is estimated to be R2 732 000 (2017 - R1 710 000 and R2 642 000 respectively).

The municipality expects to make a contribution of R200 000, (2017 - R170 000) to the defined benefit plans during the 2018/2019 financial year.

Long service awards

Based on the most recent actuarial valuation as at 30 June 2018, the future service cost for the 2018/2019 financial year was established to be R842 000, whereas the interest cost is estimated to be R709 000 (2017 - R764 000 and R586 000 respectively).

The municipality expects to make a contribution of R738 000, (2017 - R626 000) to the defined benefit plans during the 2018/2019 financial year.

Key assumptions used

Assumptions used at the reporting date:

Post employment medical aid benefits

Discount rate	10,10%	10,50%
Medical aid contribution inflation	8,40%	9,40%
Net effective discount rate	1,57%	1,01%
Consumer Price Inflation (CPI)	6,40%	7,40%

Long service awards

Discount rate	9,10%	9,20%
Normal salary increase rate	6,80%	7,00%
Net effective discount rate	2,15%	2,06%
Consumer Price Inflation (CPI)	5,80%	6,00%

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

The expected retirement age for both females and males is 63 years (2017 - 63 years for both females and males).

The basis on which the discount rate and medical aid inflation rate has been determined for the 2017/2018 financial year are as follows for post employment medical aid benefits respectively:

The discount rate used in the valuation was determined by reference to market yields on government bonds as at the balance sheet date. In line with GRAP 25 and current market practice, government bond yields are therefore used when setting best estimate discount rate assumption.

The currency and term of the government bonds shall be consistent with the currency and estimated term of the post employment benefit obligations.

The estimated discount rate was set equal to the yield on the BESA zero-coupon yield curve with a term of 17.5 years, the expected duration of the liability based on the current membership data, as at 30 June 2018.

In the past, healthcare cost inflation has typically exceeded the Consumer Price Index ("CPI") by a margin of 1% to 2%. The Bond Exchange of South Africa fits a real yield curve on index-linked bonds. This real yield curve is published together with the BEASSA yield curve on zero-coupon government bond yields, which is a nominal yield curve.

The inflation assumption methodology has been updated to reflect the use of the real and nominal yield curves to determine the inflation assumption as this provides more accurate information on the outlook on inflation at specific durations. Therefore, the best estimate inflation assumption is calculated as the difference between the nominal and real yield curves at the point corresponding to the duration of the liability, including a 0.5% inflation risk premium adjustment to make appropriate allowance for the current economic environment. A margin of 2% was added to this value to determine the healthcare cost inflation assumption.

The CPI inflation assumption using this methodology is 6.40% as at 30 June 2018. Thus, the healthcare cost inflation has been set as 8.40% at the valuation date, after allowing for a margin of 2% over CPI inflation.

The relationship between the gross discount rate and healthcare cost inflation rate is more important than the individual values. The net discount rate is also a highly significant assumption in the respective valuations.

The future medical benefits are projected in line with the healthcare cost inflation rate and discounted at the gross discount rate. This is equivalent to discounting the benefits at their current level at the net discount rate.

The net discount rate therefore depends on the relationship between the gross discount rate and the healthcare cost inflation rate respectively. Using the gross discount and healthcare cost inflation rates as shown above, the resulting net discount rate is 1.57% (calculated as $(1 + \text{discount rate}) / (1 + \text{healthcare cost inflation rate}) - 1$) for the 30 June 2018 valuation.

The basis on which the discount rate and salary inflation has been determined for the 2017/2018 financial year are as follows for long service awards respectively:

The discount rate used in the valuation was determined by reference to market yields on government bonds as at the balance sheet date. In line with GRAP 25 and current market practice, government bond yields are therefore used when setting best estimate discount rate assumption.

The currency and term of the government bonds shall be consistent with the currency and estimated term of the post employment benefit obligations.

The estimated discount rate was set equal to the yield on the BEASSA zero-coupon yield curve with a term of 7.5 years, the expected duration of the liability based on the current membership data, as at 30 June 2018.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

In the past, salary inflation has typically exceeded the Consumer Price Index ("CPI") by a margin of around 2 %.

The Bond Exchange of South Africa fits a real yield curve on index-linked bonds. This real yield curve is published together with the BEASSA yield curve on zero-coupon government bond yields, which is a nominal yield curve.

The inflation assumption methodology has been updated to reflect the use of the real and nominal yield curves to determine the inflation assumption as this provides more accurate information on the outlook on inflation at specific durations. Therefore, the best estimate inflation assumption is calculated as the difference between the nominal and real yield curves at the point corresponding to the duration of the liability, including a 0.5% inflation risk premium adjustment to make appropriate allowance for the current economic environment. A margin of 1% was added to this value to determine the salary inflation assumption, prior to further merit increases.

The CPI inflation assumption using this methodology is 5.80% as at 30 June 2018. Thus, the salary inflation has been set as 6.80% at the valuation date, after allowing for a margin of 1% over CPI inflation.

The relationship between the gross discount rate and salary inflation rates are more important than the individual values. The net discount rate is also a highly significant assumption in the respective valuations.

The future long service awards are projected in line with the salary inflation rate and discounted at the gross discount rate. This is equivalent to discounting the benefits at their current level at the net discount rate.

The net discount rate therefore depends on the relationship between the gross discount rate and the salary inflation rate respectively. Using the gross discount and salary inflation rates as shown above, the resulting net discount rate is 2.15% (calculated as $(1 + \text{discount rate}) / (1 + \text{salary inflation rate}) - 1$) for the 30 June 2018 valuation.

Due to the current market conditions, the net discount rate as at 30 June 2018 is positive.

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
Other assumptions		
Assumed healthcare cost trends and salary inflation rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends and salary inflation rates would have the following effects:		
Increase of 1% / (Decrease of 1%)		
Effect on the post employment medical aid (pemab)	1 075 000	818 000
Effect on the aggregate of the service cost and interest cost - pemab	226 000	143 000
Effect on the post employment medical aid benefit (pemab)	(1 577 000)	(1 204 000)
Effect on the aggregate of the service cost and interest cost - pemab	(329 000)	(216 000)
Effect on the long service awards (lsa)	511 000	480 000
Effect on the aggregate of the service cost and interest cost - lsa	133 000	196 000
Effect on the long service awards (lsa)	(456 000)	(430 000)
Effect on the aggregate of the service cost and interest cost - lsa	(118 000)	(45 000)

Defined benefits obligations

An amount of R 20 016 817 (2017 - R19 111 665) was contributed by Council towards employment retirement funding. These contributions have been expensed. The Zululand Joint Provident Fund had received a notice of exemption for further valuations per notice number 12/8/37666.

A service benefit in the form of participation in the Zululand Joint Provident Fund (Uthungulu District Municipality Provident Fund) was in existence, whereby the municipality and employee co-contributed towards a group life cover. During the course of previous years, pursuant to ongoing and prior engagements with relevant stakeholders, the municipality ceased participation therein in October 2015. The fund had by 30 June 2016 initiated the appropriate liquidation processes as legislated. A liquidator was duly appointed, the fund liquidated and the draft preliminary accounts were submitted to the Financial Services Board (FSB) on 31 January 2017. The FSB approval was received on 31 January 2017 and advertisements informing members and former members of the funds liquidation had been placed in newspapers. Benefits payments commenced at the beginning of May 2017 and during the 2017/2018 financial year a number of unclaimed benefits remained. The applications to transfer the unclaimed benefits from the fund to the unclaimed benefit fund have been signed by the administrator however not yet transferred. Upon the completion of the latter transfers, the finalisation of the liquidation, closure of accounts and the cancellation applications will be submitted to the Financial Sector Conduct Authority (FSCA). Due the fact that the fund is in liquidation, no financial statements are required by the FSCA.

Municipal employees have since joined the Old Mutual Group Life scheme from 1 November 2015 which includes family cover, life insurance and group income protection. The municipality and employee each contribute to the scheme based on a percentage of the employees pensionable earnings.

Description of Fund	Last Actuarial Valuation	Total Assets R'000	Total Liabilities R'000	Net Gain/ (Loss) R'000
Government Employees Pension Fund	March 2016	1 629 923	1 407 176	222 747
KwaZulu-Natal Joint Municipal Provident Fund	March 2016	3 016 932	2 864 167	152 765
Natal Joint Municipal Pension Fund (Superannuation Fund)	March 2016	10 505 210	10 505 210	-
Natal Joint Municipal Pension Fund (Retirement)	March 2016	3 736 233	3 981 103	(244 870)

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

17. Provisions

Reconciliation of provisions - June 2018

	Opening Balance	Additions	Utilised during the year	Total
Performance bonus	860 475	447 256	(569 652)	738 079
Rehabilitation of refuse landfill site	70 333 859	3 235 356	-	73 569 215
	71 194 334	3 682 612	(569 652)	74 307 294

Reconciliation of provisions - June 2017

	Opening Balance	Additions	Utilised during the year	Total
Performance bonus	1 014 548	860 475	(1 014 548)	860 475
Rehabilitation of refuse landfill site	67 112 461	3 221 398	-	70 333 859
	68 127 009	4 081 873	(1 014 548)	71 194 334

Non-current liabilities	73 569 215	70 333 859
Current liabilities	738 079	860 475

Performance bonuses are paid after the financial year end in arrears as the assessment of eligible employees had not taken place at reporting date. Refer to note 24 for individual performance bonus payout's to section 57/56 managers. Provision has been made for all managers with exception of the Municipal Manager as the position was vacant for the year under review.

In terms of licensing of the landfill refuse site, the provision for the rehabilitation costs was R73,5 million as at 30 June 2018 to restore the remaining portion's of the old Empangeni and Cell 1 refuse sites at the end of their useful lives. Provision has been made at best estimate determined by a professional engineer at a cost for the current solid waste (Cell 1 & Cell 2) and the old Empangeni Site. Rehabilitation will take place as cells are fully utilised and per the site design of the cells.

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
18. Revenue from exchange transactions - Service charges		
Sale of water	48 901 753	38 936 837
Solid waste revenue	20 505 111	18 972 070
Sanitation revenue	7 939 034	6 706 017
Cemetery revenue	224 811	174 268
Air quality licenses	20 000	52 000
	77 590 709	64 841 192

19. Revenue from exchange transactions - Rental income

Parking rental	53 198	46 667
Income from uThungulu House Development Trust	-	995 651
Income from the uThungulu Financing Partnership	446 974	1 597 578
	500 172	2 639 896

2017/2018

Rental income:
Due to the implementation of MSCOA the distribution from the entities have been reclassified to rental income.

2016/2017

MSCOA reclassifications:

The comparative figures for other rental income amounting to R2 639 896 has been reclassified to align revenue classifications to the MSCOA prescripts:

Rental income previously stated	46 667
Add reclassified expenditure from other income: refer to note 23	<u>2 593 229</u>
Post MSCOA: rental income	<u>2 639 896</u>

Refer to note 41 for further disclosure.

20. Revenue from exchange transactions - Interest received

Interest revenue

Outstanding debtors	2 190 416	2 054 263
External investments	44 448 560	45 649 116
	46 638 976	47 703 379

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
21. Revenue from non exchange transactions - Government grants and subsidies		
Grants from spheres of government and other		
Levy Replacement Grant	241 742 999	229 691 000
Equitable Share	211 987 001	203 713 932
Department of Water and Sanitation	173 789 991	270 159 536
Department of Co-operative Governance	168 447 479	152 763 820
Department of Public Works Grant	5 032 000	5 466 000
Department of Transport	2 524 039	2 377 959
National Treasury	1 457 000	1 451 053
KwaZulu Natal Department of Co-operative Governance and Traditional Affairs	828 705	398 677
Public Donors	-	32 778
KwaZulu Natal Department of Economic Development Tourism and Environmental Affairs	2 363 260	-
European Union	-	9 448
	808 172 474	866 064 203

Summary of grants per funder

Levy Replacement Grant

Regional council levies have been discontinued as from 30 June 2006, and the national fiscus has allocated a levy replacement grant to the district municipalities. The levy replacement grant is an interim measure to ensure the financial stability of the district municipalities while National government is currently defining the overall fiscus streams to local government.

Equitable Share

In terms of the Constitution, this grant is unconditional and is used to subsidise the provision of basic services to the community. These subsidies includes 6 kilolitre free basic water per household to the entire district with the exception of KZ 282.

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
Department of Water and Sanitation		
Balance unspent at beginning of the year: WSIG	14 326 695	-
Balance unspent at beginning of the year: MWIG	-	14 226 795
Transferred to funder: MWIG- EQS	-	(10 272 559)
Conditions met - transferred to revenue: MWIG	-	(3 954 536)
Conditions met - transferred to revenue - approved rollover from prior year :WSIG	(14 326 695)	-
Current year receipts: WSIG	110 000 000	85 368 987
Conditions met- transferred to revenue: WSIG	(110 000 000)	(71 041 992)
Allocation of debtor from prior year: RBIG	(16 946 704)	(33 007 696)
Current year receipts: RBIG	66 410 000	211 224 000
Conditions met - transferred to revenue: RBIG	(49 463 296)	(195 163 008)
Debtor - RBIG	-	16 946 704
	-	14 326 695

Conditions still to be met - remain liabilities (see note 22)

These grants are used for:

- water infrastructure and sanitation projects;
- drought relief and disaster relief programmes, and
- to reduce water and sanitation backlogs and sustain water and sanitation infrastructure.

2016/2017

In the 2014/2015 financial year an unspent allocation for MWIG amounting to R30 817 678 was per agreement with National Treasury, to be set off against Levy Replacement and Equitable Share tranche in three equal installments, commencing in the 2015/2016 financial year. In the 2015/2016 financial year an amount of R20 545 118 was set off against the Levy Replacement and Equitable Share tranche. The remaining amount of R10 272 559 was reduced from 2016/2017 tranche on the 1 December 2016.

Department of Co-operative Governance

Current-year receipts: MIG	173 938 000	165 170 000
Allocation of debtor from prior year: MIG	(6 787 440)	(19 193 620)
Conditions met - transferred to revenue: MIG	(168 447 479)	(152 763 820)
Debtor: MIG - refer to note 5	1 296 919	6 787 440
	-	-

This grant is used to construct water and sewerage infrastructure as part of the upgrading of informal settlement areas.

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
Department of Public Works Grants		
Current-year receipts: EPWP	5 032 000	5 466 000
Conditions met - transferred to revenue : EPWP	(5 032 000)	(5 466 000)
	<u>-</u>	<u>-</u>

This grant is used to expand job creation efforts in specific focus areas, where labour intensive delivery methods can be maximised. The following areas have been identified:

- basic services infrastructure, including water and sanitation reticulation;
- parks and beautification;
- sustainable land based livelihoods, and
- social services programmes.

Department of Transport

Balance unspent at beginning of the year	1 041	538 373
Transferred to funder - EQS	-	(538 373)
Conditions met - transferred to revenue - approved rollover from prior year	(1 041)	-
Current-year receipts: RRAMS	2 523 000	2 379 000
Conditions met - transferred to revenue: RRAMS	(2 523 000)	(2 377 959)
	<u>-</u>	<u>1 041</u>

Conditions still to be met - remain liabilities (see note 22)

The Department of Transport grant is used to co-ordinate Rural Roads Asset Management Systems, and collect road, bridges and traffic data on municipal road networks in line with the Road Infrastructure Strategic Framework for South Africa.

2016/2017

In the 2014/2015 financial year an unspent allocation for Rural transport services and infrastructure grant amounting to R1 615 116 was in agreement with National Treasury, to be set off against Levy Replacement and Equitable Share tranche in three equal installments, commencing in the 2015/2016 financial year. In the 2015/2016 financial year an amount of R1 076 743 was set off against the Levy Replacement and Equitable Share tranche. The remaining amount of R538 373 pertaining to the unspent allocation of R1 615 116 was reduced from the 2016/2017 tranche on the 1 December 2016.

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
National Treasury		
Balance unspent at beginning of the year: FMG	-	837
Conditions met - transferred to revenue - approved rollover from prior year :FMG	-	(837)
Current-year receipts : FMG	1 250 000	1 250 000
Conditions met - transferred to revenue: FMG	(1 250 000)	(1 250 000)
Current-year receipts : LG SETA	207 000	200 216
Conditions met - transferred to revenue: LG SETA	(207 000)	(200 216)
	-	-

National Treasury Financial Management grant is used for:

- to promote and support reforms to municipal financial management, and
- the implementation of the Municipal Finance Management Act (Act no. 56 of 2003).

Local Government Sector Education Training Authority grants are used for:

- the up-skilling of municipal staff through various training interventions.

The comparative figures for conditions met for 2016/2017 for both FMG and LG SETA have been disclosed separately so to be able to compare 2017/2018 expenditure.

KwaZulu Natal Department of Co-operative Governance and Traditional Affairs

Balance unspent at beginning of the year - Planning Shared Services	128 705	127 383
Conditions met - transferred to revenue - approved rollover from prior year :Planning Shared Services	(128 705)	(127 383)
Current-year receipts - Planning Shared Services	400 000	400 000
Conditions met - transferred to revenue :Planning Shared Services	(400 000)	(271 295)
Current-year receipts - District Growth Development Summit	300 000	-
Conditions met - transferred to revenue :District Growth Development Summit	(300 000)	-
Current-year receipts: Drought Relief	1 500 000	-
	1 500 000	128 705

Conditions still to be met - remain liabilities (see note 22)

These grants are used:

- to build capacity within the district in order to perform functions as per legislature;
- for disaster programmes, fire fighting equipment, water service delivery planning, shared services unit and infrastructure
- to supply portable water to specific areas per agreements.

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
Public donors		
Balance unspent at beginning of the year	-	32 778
Conditions met - transferred to revenue: FOSKOR	-	(4 528)
Conditions met - transferred to revenue: ITHALA	-	(28 250)
	-	-

2016/2017

The allocations were received to partner with the district municipality in raising funds to support children in need of school uniforms, water reticulation projects, youth and HIV/Aids programmes.

Department of Sports and Recreation

Balance unspent at beginning of the year	3 813	3 813
Conditions still to be met - remain liabilities (see note 22)		

The grant received from the Department of Sport and Recreation is used to develop sporting codes within the district. The grant is spent in accordance with the approved business plan.

KwaZulu Natal Department of Economic Development Tourism and Environmental Affairs

Balance unspent at beginning of the year	2 500 000	1 000 000
Conditions met - transferred to revenue - approved roll over from prior year	(2 363 260)	1 500 000
Current-year receipts	1 300 000	-
	1 436 740	2 500 000

Conditions still to be met - remain liabilities (see note 22)

The grant received from the Department of Economic Development Tourism and Environmental Affairs is for the development of environmental framework plan and essential oils programmes.

European Union

Balance unspent at beginning of the year	-	9 448
Conditions met - transferred to revenue	-	(9 448)
	-	-

2016/2017

The grant received from the European Union was for the development of critical sector plans and other.

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
22. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Conditional grants from spheres of government and other		
Department of Water and Sanitation	-	14 326 695
Department of Transport	-	1 041
KwaZulu Natal Department of Co-operative Governance and Traditional Affairs	1 500 000	128 705
KwaZulu Natal Department of Economic Development Tourism and Environmental Affairs	1 436 740	2 500 000
Department of Sport and Recreation	3 813	3 813
	2 940 553	16 960 254

23. Revenue from exchange transactions - Other income

Dividends	3 294	20 875
Insurance claim proceeds	1 857 512	1 107 619
Lease income	67 641	61 492
Bursary and SETA refunds	218 994	70 028
Reversal of impaired debtor	-	4 869 359
Sundry income and other	-	180 978
Administrative fees	261 698	-
Tender deposits and sale of maps	801 659	1 066 449
	3 210 798	7 376 800

2017/2018

Sundry income and other:

Due to the implementation of MSCOA there is no longer a category for sundry income as each income category in MSCOA has a separate classification.

2016/2017

MSCOA reclassifications:

The comparative figures for other income amounting to R7 376 800 has been reclassified to align revenue classification to the MSCOA prescripts:

Other income previously stated	9 970 029
Less reclassified expenditure to rental income: refer to note 19	<u>(2 593 229)</u>
Post MSCOA: other income	<u>7 376 800</u>

Refer to note 41 for further disclosure.

Dividends:

The municipality was one of numerous municipalities who became shareholders in Sanlam Limited as a result of a demutualisation process undertaken by Sanlam Limited in 1998. The municipality was not aware of the allocation of shares until Sanlam Limited issued a notice for untraceable shareholders. National Treasury through correspondence notified municipalities that Sanlam Limited issued a notice for untraceable shareholders in 2016/2017. In this regard the municipality was issued 1136 shares with accumulated dividends amounting to R20 875 which was received by the municipality on 26 May 2017. Refer to note 12.

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
24. Employee related costs		
Employee related costs - salaries and wages	133 307 788	120 492 107
Employee related costs - contributions for UIF, pensions and medical aid	30 229 007	26 400 863
Travel and vehicle allowances	14 723 266	12 921 557
Overtime and relief payments	7 501 615	7 109 366
Defined employee benefit obligations: post employment medical aid benefits & long service awards	1 569 000	3 549 000
Housing benefits and other allowances	2 851 512	2 716 456
	190 182 188	173 189 349

2016/2017

MSCOA reclassifications:

The comparative figures for employee related costs amounting to R173 189 349 has been reclassified to align expenditure classification to the MSCOA prescripts:

Employee related costs previously stated	168 272 177
Add reclassified expenditure from operational costs: refer to note 32	<u>4 917 172</u>
Post MSCOA: employee related costs	<u>173 189 349</u>

Refer to note 41 for further disclosure.

Included in employee related costs above are the following salaries, allowances and benefits for the Municipal Manager and Deputy Municipal Managers:

Remuneration of Municipal Manager

Annual remuneration	-	1 236 723
Travel allowance	-	429 315
Performance bonuses	164 896	218 820
Contributions to UIF and other	149	1 877
	165 045	1 886 735

2017/2018

The contract of the Municipal Manager ended on 30 June 2017 and the incumbent received a performance bonus for the performance outputs achieved in the 2016/2017 financial year, which was paid in the current financial year. The position has since been advertised.

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
Remuneration of Deputy Municipal Manager - Technical Services		
Annual remuneration	368 654	39 032
Acting allowance	56 817	-
Contributions to UIF, medical aid and other	12 158	15 362
	437 629	54 394

2017/2018

In the period under review an acting allowance of R56 817 was paid to an incumbent for duties pertaining to the Deputy Municipal Manager: Technical services position. The position was subsequently filled on 1 February 2018.

2016/2017

An amount of R54 394 was paid as the final salary to the previous Deputy Municipal Manager: Technical Services as the incumbent was no longer employed by the municipality.

Remuneration of Deputy Municipal Manager - Corporate Services

Annual remuneration	1 141 410	1 079 348
Travel allowance	348 764	329 801
Performance bonuses	104 937	198 932
Annual bonus	95 118	89 946
Contributions to UIF and other	1 884	1 877
Acting allowance	30 945	-
	1 723 058	1 699 904

2017/2018

In the period under review an acting allowance of R30 945 was paid to an incumbent for fulfilling the duties pertaining to the Deputy Municipal Manager Corporate services department.

Remuneration of Deputy Municipal Manager - Financial Services

Annual remuneration	1 109 711	1 049 372
Travel allowance	483 901	457 563
Performance bonuses	149 909	198 932
Contributions to UIF and other	1 950	1 877
Acting allowance	61 660	-
	1 807 131	1 707 744

2017/2018

In the period under review an acting allowance of R61 660 was paid to the incumbent for fulfilling the duties pertaining to the Municipal Manager which has been vacant from 1 July 2017. The incumbent acted for the period 1 January 2018 to 30 June 2018.

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
Remuneration of Deputy Municipal Manager - Planning & Economic Development		
Annual remuneration	150 662	191 479
Travel allowance	-	43 437
Performance bonuses	-	198 932
Annual bonus	-	71 805
Acting allowance	25 872	31 181
Contributions to UIF and other	314	13 955
	176 848	550 789

2017/2018

In the period under review an acting allowance of R25 872 was paid to an incumbent for duties pertaining to the Deputy Municipal Manager: Planning and Economic Development position. The position was subsequently filled on 1 May 2018.

2016/2017

An acting allowance of R31 181 was paid to an incumbent for duties pertaining to the Planning Department as the post for the Deputy Municipal Manager: Planning and Economic Development had been vacant since September 2016.

Deputy Municipal Manager - Community Services

Annual remuneration	1 163 426	1 100 167
Travel allowance	230 299	216 889
Performance bonuses	149 909	198 931
Contributions to UIF, medical, pension and other	195 429	183 960
Acting allowance	65 845	-
	1 804 908	1 699 947

2017/2018

In the period under review an acting allowance of R65 845 was paid to the incumbent for fulfilling the duties pertaining to the Municipal Manager which has been vacant from 1 July 2017. The incumbent acted for the period 1 July 2017 to 31 December 2017.

25. Remuneration of councillors

Mayor	868 112	844 048
Deputy Mayor	692 829	695 663
Speaker	722 002	661 423
Chief Whip	675 084	589 640
MPAC Chair	633 648	570 477
Executive Committee	4 302 466	3 425 478
Councillors	2 900 918	2 425 190
Councillors' pension contribution	983 038	773 634
	11 778 097	9 985 553

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
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In-kind benefits

The Mayor, Deputy Mayor, Speaker, Chief Whip, MPAC Chair and Executive Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council, which is included with other expenditure in the statement of financial performance. The Mayor, Deputy Mayor and Speaker have the use of a Council owned vehicle together with a driver for official duties, and security. Furthermore, personal security is provided for some Exco and Council members based on security assessments, as outlined in the Government Gazette on the Determination of upper limits of salaries, allowances and benefits of municipal councils.

2016/2017

As a result of the Local Government elections, councillors elected to serve on EXCO including the MPAC chair were only paid full time allowances for these positions from 23 November 2016, which was the date of the MEC for COGTA's proclamation.

26. Depreciation, amortisation and impairment

Property, plant and equipment	68 467 529	60 494 473
Intangible assets	596 168	449 864
	69 063 697	60 944 337

The comparative figure for depreciation on property, plant and equipment has been restated by an amount of R1 408 195 from R62 352 532 - refer to note 42.

27. Finance costs

Interest paid - long term liabilities	6 432 319	9 125 435
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Finance charges relate to the two annuity loans currently held with ABSA and INCA with balances of R28 393 087 and R16 068 568 as at 30 June 2018 respectively. Furthermore, the municipality incurred finance charges for a finance headlease for a property of which the final payment was made in October 2017. Refer to note 13 for further disclosures.

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
28. Repairs and maintenance		
	-	-

2017/2018

Due to the implementation of MSCOA in the financial year, repairs and maintenance is no longer accounted for in the statement of financial performance.

2016/2017

MSCOA reclassifications:

The comparative figure for repairs and maintenance amounting to nil has been reclassified to align expenditure classification to the MSCOA prescripts:

Repairs and maintenance previously stated	79 123 047
Less reclassified expenditure to contracted services: refer to note 30	(60 091 505)
Less reclassified expenditure to operational costs: refer to note 32	<u>(19 031 542)</u>
Post MSCOA - repairs and maintenance	<u>0</u>

Refer to note 41 for further disclosure.

29. Bulk purchases

Water	47 254 675	33 777 850
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2016/2017

MSCOA reclassifications

The comparative figure for bulk purchases amounting to R33 777 850 has been reclassified to align expenditure classification to the MSCOA prescripts:

Bulk purchases previously stated	55 621 511
Add reclassified expenditure from operational costs: refer to note 32	4 090 211
Less reclassified expenditure to operational costs: refer to note 32	<u>(25 933 872)</u>
Post MSCOA total bulk purchases	<u>33 777 850</u>

Refer to note 41 for further disclosure.

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
30. Contracted services		
Outsourced services	127 262 928	35 774 500
Consultant and professional services	24 502 456	13 954 790
Contractors	226 511 175	219 805 933
	<u>378 276 559</u>	<u>269 535 223</u>

2016/2017

MSCOA reclassifications

The comparative figures for contracted services amounting to R269 535 223 has been reclassified to align expenditure classification to the MSCOA prescripts:

Contracted services previously stated	100 051 751
Less reclassified expenditure to operational costs - refer to note 32	(2 478 454)
Add reclassified expenditure from repairs and maintenance - refer to note 28	60 091 505
Add reclassified expenditure from operational costs - refer to note 32	5 383 502
Add reclassified IDP internally funded expenditure from operational costs - refer to note 32	80 940 152
Add reclassified IDP externally funded expenditure from operational costs - refer to note 32	<u>25 546 770</u>
Post MSCOA total for contracted services	<u>269 535 223</u>

Refer to note 41 for further disclosure.

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
31. Transfers and subsidies		
KZ 282 uMhlathuze Municipality	-	5 624 601
Transfers to organisations	4 344 219	1 660 000
KZ 284 Umlalazi Municipality	80 000	260 000
KZ 281 Umfolozi Municipality	695 500	70 000
King Cetshwayo Fresh Produce Market Pty	6 400 000	5 016 923
	11 519 719	12 631 524

2016/2017

MSCOA reclassifications

The comparative figures for transfers and subsidies amounting to R12 631 524 has been reclassified to align expenditure classification to the MSCOA prescripts:

Transfers and subsidies previously stated	10 641 525
Add reclassified expenditure from operational costs - refer to note 32	<u>1 990 000</u>
Post MSCOA total transfers and subsidies	<u>12 631 525</u>

Refer to note 41 for further disclosed.

The municipality transferred a grant of R5 000 000 and donated assets with a carrying value of R16 924 to the municipal entity, Uthungulu Fresh Produce Market Pty, now known as King Cetshwayo Fresh Produce Market Pty.

As per the re-determination of boundaries Gazette number 154, water infrastructure assets with a carrying value of R5 624 601 was transferred to uMhlathuze Municipality effective 10 August 2016. Refer to note 8 and note 40.

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
32. Operational Costs		
Achievements and awards	32 835	-
Advertisements and publicity	7 645 717	6 577 816
Archives	74 995	174 173
Bank charges	181 102	155 714
Bursaries	742 533	853 521
Courier and delivery services	27 440	10 582
Deeds	10 651	11 189
Delegations	807 156	1 124 291
External audit fees	2 895 361	2 338 424
Insurance	3 149 067	2 840 910
Inventory - materials and supplies	12 551 741	9 670 350
Inventory consumable stores	4 788 225	9 471 384
Landfill site rehabilitation	3 235 361	3 221 398
Licenses	3 974 795	1 613 188
Municipal services	30 590 305	26 990 237
Operating leases	25 060 902	24 844 015
Personal protective equipment	1 277 037	1 053 627
Personnel agency fees	264 678	75 535
Postage	513 358	353 675
Professional and regulatory bodies fees	2 567 029	1 932 824
Resettlement costs	9 134	14 560
Skills development levy	1 600 183	1 318 760
Small tools	126 409	101 966
Subsistence and travelling	6 737 563	6 679 871
Telephone	3 429 449	3 054 079
Vehicle tracking services	6 776	40 070
	112 299 802	104 522 159

2016/2017

MSCOA reclassifications

The comparative figures for operational costs (previously known as general expenses) amounting to R104 522 159 has been reclassified to align expenditure classification to the MSCOA prescripts:

Operational costs previously stated	179 946 094
Less reclassified expenditure to contract services - refer to note 30	(109 391 969)
Less reclassified expenditure to bulk purchases - refer to note 29	(4 090 212)
Less reclassified expenditure to employee costs - refer to note 24	(4 917 171)
Less reclassified expenditure to transfers and subsidies - refer to note 31	(1 990 000)
Add reclassified expenditure from repairs and maintenance - refer to note 28	19 031 542
Add reclassified expenditure from bulk purchases - refer to note 29	<u>25 933 874</u>
Post MSCOA operational costs	<u>104 522 159</u>

Refer to note 41 for further disclosure.

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
33. Cash generated from operations		
Surplus	109 878 502	298 375 907
Adjustments for:		
Depreciation, amortisation and impairment	69 063 697	60 944 337
Gain/(loss) on sale/disposal of property, plant and equipment	1 081 313	(71 635)
Fair value adjustments	(42 952)	(5 044)
Debt impairment	5 317 989	12 345 987
Movements in defined employee benefit obligations	1 569 000	3 549 000
Movements in provisions	3 112 960	3 067 325
Inventories losses/write-downs	-	4 268 825
Changes in working capital:		
Inventories	(305 245)	(1 162 586)
Receivables from non-exchange transactions	21 133 995	21 436 615
Receivables from exchange transactions - consumer debtors	(17 627 845)	(9 384 928)
Payables from exchange transactions	27 026 781	33 165 085
Receivables from exchange transactions - VAT	(11 889 680)	23 101 308
Unspent conditional grants and receipts	(14 019 701)	1 020 828
Consumer deposits	(374 939)	247 819
Other non-cash items: Accruals	(497 485)	(56 951 909)
	193 426 390	393 946 934

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
34. Commitments		
Authorised capital expenditure		
Approved and Contracted for:		
• Infrastructure	336 534 810	241 385 435
This expenditure will be financed from:		
• Government grants	336 534 810	241 143 928
• Own resources	-	241 507
	336 534 810	241 385 435

The outstanding commitments relate to capital projects and other assets that have been committed by order, by the Bid Adjudication Committee and Acting Municipal Manager prior to 30 June 2018.

35. Operating leases - as lessee (expense)

Minimum lease payments due		
- not later than one year	11 548 603	2 158 419
- later than one year and not later than five years	23 038 311	65 839
	34 586 914	2 224 258

Operating lease payments represent payments for the leasing of vehicles by the municipality. Lease contracts are entered into for a three year period and the lease payments are fixed for the lease period with no escalation. A number of the current lease agreements were extended in the 2016/2017 financial year via section 116 of the Municipal Finance Management Act on a month to month basis and this has continued in the 2017/2018 financial year.

An amount of R7 067 461 has been recognised in the statement of financial performance for the period ended 30 June 2018. Furthermore the municipality had concluded prior to year end the procurement of a new fleet on a full maintenance lease for the period ending 30 June 2021 (KCDM/08/2018).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

36. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process. Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that the accounting officer records the reasons for any deviations and reports the said deviations to the next meeting of Council and includes a note to the annual financial statements. All deviations are reported to Council on a quarterly basis with a detailed schedule and reasons thereto.

The deviations greater than R 200 000 are listed individually below for the period ended 30 June 2018.

<u>Project description</u>	<u>Amount</u>
Desludging of waste water treatment plants	351 968
Provision of security services	395 187
Extension of the provision of plant hire services	1 542 740
Water tanker services - drought relief	1 780 036
Facilitation of services for EPWP contracts	2 301 106
Extension of the provision of plant hire services	1 645 780
Provision of security services	395 187
Provision of chemicals for water treatment	522 400
Water tanker services - drought relief	313 313
Water tanker services - drought relief	2 008 007
Provision of automated contract management systems	248 338
Salga games - sports wear	576 153
Desludging of waste water treatment plants	1 298 000
Procurement of vehicle	497 043
Provision of equipment for LED projects	455 000
Extension of the provision of plant hire services	1 645 780
Provision of security services	395 187
Provision of chemicals for water treatment	261 200
Water tanker services - drought relief	1 039 788
Extension of the provision of plant hire services	1 576 245
Provision of security services	395 187
Provision of chemicals for water treatment	545 000
Provision of chemicals for water treatment	297 768
Provision of chemicals for water treatment	316 122
Provision of chemicals for water treatment	316 122
Water tanker services - drought relief	2 640 461
Water tanker services - drought relief	1 438 515
Provision of temporal shelters for disaster management	342 000
Provision of security services	446 561
Provision of chemicals for water treatment	1 105 125
Water tanker services - drought relief	1 152 880
Provision of hired vehicles	426 336
Provision of security services	813 947
Water tanker services - drought relief	1 078 820
Procurement of vehicle	1 000 000
Provision of security services	446 561
Extension of the provision of plant hire services	3 120 390
Salga games - accommodation	315 220
Provision of chemicals for water treatment	893 236
Provision of security services	446 561
Extension of the provision of plant hire services	1 636 983
Water tanker services - drought relief	984 846
Water tanker services - drought relief	4 184 155

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

Refurbishment of clarifiers	2 876 200
Provision of security services	446 561
Water tanker services - drought relief	1 211 746
Water tanker services - drought relief	994 360
Provision of hired vehicles	602 000
Provision of security services	450 479
Extension of the provision of plant hire services	1 428 866
Water tanker services - drought relief	1 368 564
Water tanker services - drought relief	609 694
Provision of security services	450 479
Extension of the provision of plant hire services	1 741 114
Water tanker services - drought relief	528 320
Training of officials at Wits business school - MFMP	232 000
Provision of security services	450 479
Extension of the provision of plant hire services	1 677 902
Salga games - accommodation	782 000
Water tanker services - drought relief	1 881 752
Water tanker services - drought relief	<u>2 465 564</u>
	63 789 330
Total deviations less than R 200 000 aggregated	<u>6 463 646</u>
Total	<u>70 252 976</u>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

37. Awards to close family members of persons in the service of the state

Paragraph 45 of the Municipal Finance Management Act, 2003(Act no. 56 of 2003); Municipal Supply Chain Management Regulations states that the particulars of any award more than R 2 000 made to a person who is a spouse, child or parent of a person in the service of the state, or has been in the service of the state in the previous twelve(12) months must be disclosed as a note in the financial statements.

The details are listed below for the year ended June 2018:

Name of person	T Jordan
Relation	Spouse
Capacity	Deputy Manager: Development Administration - City of Umhlathuze
Service Provider	Audio Computer World
Number of transactions	69
Total Amount	R 841 660

Name of person	R Pillay
Relation	Spouse
Capacity	Educator - Department of Education
Service Provider	KDM Sports cc
Number of transactions	1
Total Amount	R 18 522

Name of person	N. Reddy
Relation	Spouse
Capacity	Prosecutor - NPA Verulam Court
Service Provider	Fana Manufacturing cc
Number of transactions	88
Total Amount	R 2 035 926

Name of person	Mrs Msomi and Miss Msomi
Relation	Spouse and daughter
Capacity	Department of Education and Ethekekwini municipality
Service Provider	Ngubane and Co
Number of transactions	17
Total Amount	R 2 352 592

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
38. Additional disclosure in terms of Municipal Finance Management Act No 56 of 2003		
Contributions to organised local government		
Current year membership fee	1 985 150	2 033 150
Amount paid - current year	(1 985 150)	(2 033 150)
	-	-
Audit fees		
Current year fee	2 859 184	2 338 424
Amount paid - current year	(2 859 184)	(2 338 424)
	-	-
PAYE and UIF		
Current year subscription / fee	31 768 532	26 552 627
Amount paid - current year	(31 768 532)	(26 552 627)
	-	-
Pension and Medical Aid Deductions		
Current year subscription / fee	24 949 856	23 502 900
Amount paid - current year	(24 949 856)	(23 502 900)
	-	-
VAT		
VAT receivable	59 232 227	47 342 547

2017/2018

All VAT 201 returns have been submitted by the due date throughout the 12 months. The VAT 201 returns for the month of January 2018 and the months of March 2018 to June 2018 had not yet been settled as at 30 June 2018, however the March 2018 to May 2018 returns were subsequently settled by SARS in July 2018 and August 2018.

2016/2017

All VAT 201 returns had been submitted by the due date throughout the year. The VAT 201 returns for the months of March 2017 to June 2017 had not yet been settled as at 30 June 2017.

In the financial year the municipality had engaged SARS with respect to the following matter:

a) The April 2017 VAT 201 return was disputed by SARS. The municipality had lodged an ADR1 application disputing the grounds as all input VAT claimed related to April 2017. Subsequently the matter was resolved in the Municipality's favour.

Councillors arrear consumer accounts

At the reporting date no Councillor's had arrear accounts outstanding for more than 90 days.

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
39. Contingent liabilities		
A - Legal matters - Future legal fees and other		
1. Ex-employee 1 - legal action pending	600 000	600 000
2. Consulting engineers 1 - legal matter pending	300 000	200 000
3. Contractor 1 - legal matter pending	250 000	150 000
4. Service provider 1 - legal action pending	40 000	40 000
6. Employees 9 - legal matter pending	444 482	-
7. Employee 10 - legal matter finalised	150 000	-
8. Employee 11 - legal matter pending	200 000	-
9. Service provider 2 - legal action pending	65 584	65 584
10. Debtor - legal action pending	100 000	-
	2 150 066	1 055 584

1. Ex-employee 1 - legal action pending

The municipality has taken legal action against an ex-employee who made an illegal investment. The matter is being dealt with by the high court. The appointed legal team has commenced with pre-trial preparations with the appointed advocate. Trial dates are pending.

2. Consulting engineers 1 - legal matter pending

This matter refers to a dispute with a consulting engineering firm and relates to the consultant increasing the scope of work of a project without obtaining prior approval from the municipality. The matter is a high court claim and the matter is ready for trial and on the trial awaiting list.

3. Contractor 1 - legal matter pending

The municipality has taken legal action against a contractor for non performance and relates to the claim referred to in point 2 above. The matter is with the high court, however it may not come before the court as it is our legal teams view that the Consultant is liable for all costs.

4. Service provider 1 - legal action pending

This is a high court claim in which an order of re-payment was obtained against the service provider.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

5. Employees 2 & 3 - legal matter finalised

This matter refers to an application for a review of an arbitration award made in favour of the municipality. The application for review has been finalised by the court and the Judge has given his ruling which was in the favour of the municipality. SAMWU on behalf of its members had referred the matter for review. The review argument has been finalised. The Judge's ruling has been issued in favour of the municipality and a cost order was issued against the employees in favour of the municipality. The bills of costs are being prepared by a cost consultant for presentation to the opposing side.

6. Employee 9 - legal matter pending

This matter refers to an application for review of an arbitration award in a matter dealing with allegations of an unfair employee dismissal. The matter is currently in the labour court to review the Commissioners report. This process is hoped to compel parties to open settlement negotiations.

7. Employee 10 - legal matter pending

This matter refers to an application for the review of the findings of the Chairperson during the internal disciplinary processes. The matter is set for review in the labour court and relevant papers have been lodged with the said court and hearing date was set of 8 June 2018, however the matter could not proceed as the matter was not on the opposed court roll. The new date is being arranged with the registrar.

8. Employee 11 - legal matter pending

This matter refers to allegations by the employee for unfair dismissal. The matter is currently in the KZN labour court for review. The application for review was brought by the municipality.

9. Service provider 2 - legal action pending

The matter refers to a civil litigation suite based on a repudiation of a contract to supply certain services to the municipality. The service provider has instituted action against King Cetshwayo District Municipality at Durban High Court for an original R11m claim. The Plaintiff has since amended its particulars of claim to R3 ,750 m. The defendants had in turn delivered a plea wherein a special plea had been raised together with a counter claim seeking an order to declare the purported contract unlawful. Furthermore, the defendant had invoked rule 7(1) of the Uniform Rules of Court requesting the plaintiffs attorneys to provide with the defendant proof of authority to act. Plaintiffs attorneys have since furnished the defended with Special Power of Attorney. This matter is ready for trial.

10. Debtor 1 - legal action pending

This is a dispute between the Home Owners Association and the Municipality regarding a contractual matter with regards to the responsibility of the reticulation system within the estate.

The contingent liabilities with associated estimated legal fees of R2 150 066 mentioned above is generally costs associated with the litigation process and any resultant claims cannot be quantified.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

B - Dispute with the department of water and sanitation (DWS)

A dispute has arisen between the municipality and the DWS with regard to charges which have been levied by the department against the Municipality pertaining to raw water abstraction.

The dispute has arisen due to the department charging the municipality for water abstracted from the abstraction points under the control of the municipality, when no water was available due to the ongoing drought in the region. The municipality believes that it should not be charged for water that could not be delivered due to the drought. Emanating from numerous meetings with DWS, the department has requested the municipality to make a formal application to the department, requesting the reversal of all interest charges, the crediting of the erroneous invoices, and the substitution of corrected invoices based on actual water abstracted from the various abstraction points.

In light of the above, an accrual has been made on the basis of the application being accepted by the department.

The table below outlines the contingent liability.

Total raised by DWS	32 517 674
Less: Contingent liability - Interest to be reversed on disputed invoices	(5 493 047)
Less: Contingent liability - Pre 2012 invoices to be credited by DWS as per motivational correspondence from Provincial Treasury	<u>(7 128 552)</u>
Sub total	<u>19 896 075</u>
Contingent liability	(13 687 481)
Accrued expenses	6 208 594

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
40. Related parties		
Relationships		
Municipal entities		
		The uThungulu Financing Partnership uThungulu House Development Trust King Cetshwayo Fresh Produce Market Pty
Related party balances		
Investments in municipal entities		
The uThungulu Financing Partnership	-	5 478 224
uThungulu House Development Trust	687 134	650 169
King Cetshwayo Fresh Produce Market Pty	1 000	1 000
Income received from related parties		
The uThungulu Financing Partnership	446 974	1 597 578
uThungulu House Development Trust	-	995 651
Balances outstanding from related parties		
The uThungulu Financing Partnership	-	5 345 363
% Interest in municipal entities		
The uThungulu Financing Partnership	99	99
uThungulu House Development Trust	100	100
King Cetshwayo Fresh Produce Market Pty	100	100
Transfers and subsidies		
King Cetshwayo Fresh Produce Market Pty	6 400 000	5 016 924
uMhlathuze Municipality	-	5 624 601
uMlalazi Municipality	80 000	260 000
uMfolozi Municipality	695 500	70 000
<u>2016/2017</u>		
MSCOA reclassifications		
Comparative figures for transfers and subsidies has been reclassified to align expenditure classifications to the MSCOA prescripts - refer to note 31 and note 41.		
Related party transactions		
Sub-lease payments		
The uThungulu Financing Partnership	441 972	2 542 241

King Cetshwayo District Municipality

Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

The uThungulu Financing Partnership is a partnership between King Cetshwayo District Municipality, NIB9810 Trust and Nedcor. King Cetshwayo District Municipality as at 30 April 2008 holds 99% and Nedcor and NIB9810 holds the balance of 1%. The uThungulu Financing Partnership was formed to facilitate the purchase of the King Cetshwayo House in order to provide offices for King Cetshwayo District Municipality. In order to finance the purchase of the King Cetshwayo house, the partnership entered into a loan agreement with Nedcor. In terms of the sub lease agreement, King Cetshwayo District Municipality is obliged to make bi-annual sub payments to the partnership to reimburse uThungulu Financing Partnership the loan repayments made to Nedcor. The loan is payable over a 20 year period (commencing in 1998 and ending in 2017).

uThungulu House Development Trust leases immovable property to the uThungulu Financing Partnership in terms of a financing lease. The original lease period expired on 31 October 2017.

The municipality has consulted Councils attorney's regarding the different options in terms of the dissolution of the Trust and Partnership. Council has taken a resolution to dissolve the Trust and the subsequent processes will be initiated in the 2018/2019 financial year.

The Council embarked on the establishment of an entity known as the King Cetshwayo Fresh Produce Market Pty (formerly known as the uThungulu Fresh Produce Market Pty), which was incorporated on 23 June 2015 and commenced activities on 1 July 2015 (previously dormant).

The above mentioned entities are incorporated in South Africa.

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

41. MSCOA Reclassification of comparative expenditure

In terms of Government Gazette No. 37577 dated 22 April 2014 a notice was issued on the Local Government: Municipal Finance Management Act (56/2003): Municipal Regulations on Standard Chart of Accounts.

The objective of these Regulations is to provide for a national standard for the uniform recording and classification of municipal budget and financial information at a transaction level by prescribing a standard chart of accounts for municipalities which -

(a) are aligned to the budget formats and accounting standards prescribed for municipalities and municipal entities and with the standard charts of accounts for national and provincial government; and

(b) enable uniform information sets recorded in terms of national norms and standards across the whole of government for the purposes of national policy coordination and reporting, benchmarking and performance measurement in the local government sphere.

As of 1 July 2017 the municipality has implemented National Treasury's Municipal Standard Chart of Accounts. The new chart is designed to enhance comparability between municipalities and therefore results in information disclosed being more understandable and reliable. Due to the implementation of the new chart, certain comparative figures needed to be re-aligned to allow a comparison between the current period figures and the prior year's figures that were presented based on the old municipal chart of account. The total expenditure and revenue for 2016/2017 has not been affected however the impact on the expenditure and revenue line items on the annual financial statements is outlined below.

Statement of financial performance	Pre MSCOA	Reclassification	Post MSCOA	Reference
<u>Revenue</u>	-	-	-	
Service charges	64 841 192	-	64 841 192	
Rental income	46 667	2 593 229	2 639 896	A1
Interest received	47 703 379	-	47 703 379	
Other income	9 970 029	(2 593 229)	7 376 800	B1
Gain on disposal of PPE	71 635	-	71 635	
Fair value adjustments in investments	5 044	-	5 044	
Government grants and subsidies	866 064 203	-	866 064 203	
<u>Expenditure</u>	-	-	-	
Employee related costs	(168 272 177)	(4 917 171)	(173 189 349)	C1
Remuneration of councillors	(9 985 553)	-	(9 985 553)	
Depreciation, amortisation and impairments	(60 944 337)	-	(60 944 337)	
Finance costs	(9 125 435)	-	(9 125 435)	
Debt impairments	(12 345 987)	-	(12 345 987)	
Repairs and maintenance	(79 123 047)	79 123 047	-	D1
Bulk purchases	(55 621 511)	21 843 661	(33 777 850)	E1
Contracted services	(100 051 751)	(169 483 474)	(269 535 222)	F1
Transfers and subsidies (previously grants and donations)	(10 641 525)	(1 990 000)	(12 631 525)	G1
Inventories losses/write downs	(4 268 825)	-	(4 268 825)	
Operational costs (previously general expenses)	(179 946 094)	75 423 937	(104 522 159)	H1
	298 375 907	-	298 375 907	

A) Rental income - note 19

Pre MSCOA disclosed amount	46 667
Reclassified from other income	2 593 229
	2 639 896

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

A 1) Effect on rental income

	Pre MSCOA	Reclassification	Post MSCOA
Rental from parking	46 667	-	46 667
Income from uThungulu House Development Trust	-	995 651	995 651
Income from the uThungulu Financing Partnership	-	1 597 578	1 597 578
	46 667	2 593 229	2 639 896

B) Other income - note 23

	Amount
Pre MSCOA disclosed amount	9 970 029
Reclassified to rental income	(2 593 229)
	7 376 800

B 1) Effect on other income

	Pre MSCOA	Reclassification	Post MSCOA
Dividends	20 875	-	20 875
Income from uThungulu House Development Trust	995 651	(995 651)	-
Income from the uThungulu Financing Partnership	1 597 578	(1 597 578)	-
Insurance claim proceeds	1 102 425	5 194	1 107 619
Lease income	61 492	-	61 492
SETA refund	70 028	-	70 028
Sundry income and other	5 055 531	(5 055 531)	-
Tender deposits	1 066 449	-	1 066 449
Reversal of an impaired debtor	-	4 869 359	4 869 359
Administrative fees	-	180 978	180 978
	9 970 029	(2 593 229)	7 376 800

C) Employee related costs - note 24

	Amount
Pre MSCOA disclosed amount	(168 272 177)
Reclassified from operational costs	(4 917 172)
	(173 189 349)

C 1) Effect on employee related costs

	Pre MSCOA	Reclassification	Post MSCOA
Employee related costs - salaries and wages	(115 574 935)	(4 917 172)	(120 492 107)
Employee related costs - contribution to UIF, pensions and medical aids	(26 400 863)	-	(26 400 863)
Travel and vehicle allowances	(12 921 557)	-	(12 921 557)
Overtime and relief payments	(7 109 366)	-	(7 109 366)
Housing benefits and allowances	(2 716 456)	-	(2 716 456)
Defined employee benefit obligations	(3 549 000)	-	(3 549 000)
	(168 272 177)	(4 917 172)	(173 189 349)

D) Repairs and maintenance - note 28

	Amount
Pre MSCOA disclosed amount	(79 123 047)
Reclassified to contracted services	60 091 505
Reclassified to operational costs	19 031 542
	-

D 1) Effect on repairs and maintenance

	Pre MSCOA	Reclassification	Post MSCOA
Other assets	(1 222 690)	1 222 690	-
Infrastructure	(77 362 148)	77 362 148	-
Buildings	(538 209)	538 209	-
	(79 123 047)	79 123 047	-

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

E) Bulk purchases - note 29	Amount
Pre MSCOA disclosed amount	(55 621 511)
Reclassified from operational costs	(4 090 211)
Reclassified to operational costs	25 933 872
	(33 777 850)

E 1) Effect on bulk purchases	Pre MSCOA	Reclassification	Post MSCOA
Electricity for operations	(26 450 552)	26 450 552	-
Water	(29 170 959)	(4 606 891)	(33 777 850)
	(55 621 511)	21 843 661	(33 777 850)

F) Contracted services - note 30	Amount
Pre MSCOA disclosed amount	(100 051 750)
Reclassified to operational costs	2 478 454
Reclassified from repairs and maintenance	(60 091 505)
Reclassified from operational costs	(5 383 502)
Reclassified IDP internally funded expenditure from operational costs	(80 940 152)
Reclassified IDP externally funded expenditure from operational costs	(25 546 770)
	(269 535 225)

F 1) Effect on contracted services	Pre MSCOA	Adjustment	MSCOA line item name change	Reclassification	Post MSCOA
Support service agent	(98 158 040)	98 158 040	-	-	-
Internal audit	(1 798 539)	1 798 539	-	-	-
Specialist services	(95 171)	95 171	-	-	-
Outsourced services	-	-	(7 206 920)	(28 567 580)	(35 774 501)
Consultant and professional services	-	-	(4 010 844)	(9 943 947)	(13 954 790)
Contractors	-	-	(88 833 986)	(130 971 947)	(219 805 934)
	(100 051 750)	100 051 750	(100 051 750)	(169 483 474)	(269 535 225)

G) Transfers and subsidies (previously grants and donations) - note 31	Amount
Pre MSCOA disclosed amount	(10 641 525)
Reclassified from operational costs	(1 990 000)
	(12 631 525)

G 1) Effect on transfers and subsidies	Pre MSCOA	Reclassification	Post MSCOA
King Cetshwayo Fresh Produce Market Pty	(5 016 924)	-	(5 016 924)
KZ 282 uMhlathuze Municipality	(5 624 601)	-	(5 624 601)
Transfers to organisations	-	(1 660 000)	(1 660 000)
KZ 284 uMlalazi Municipality	-	(260 000)	(260 000)
KZ 281 uMfolozi Municipality	-	(70 000)	(70 000)
	(10 641 525)	(1 990 000)	(12 631 525)

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

H) Operating costs (previously general expenses) - note 32	Amount
Pre MSCOA disclosed amount	(179 946 094)
Reclassified to contract services	109 391 969
Reclassified from repairs and maintenance	(19 031 542)
Reclassified to bulk purchases	4 090 212
Reclassified to employee costs	4 917 171
Reclassified to transfers and subsidies	1 990 000
Reclassified from bulk purchases	(25 933 874)
	<u>(104 522 158)</u>

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

H 1) Effect on operating costs (previously general expenses)	Pre MSCOA	Reclassification	Post MSCOA
Advertisements	(861 284)	(5 716 532)	(6 577 816)
Assessment rates and municipal charges	(1 024 435)	1 024 435	-
Auction fees	(28 916)	28 916	-
Audit committee fees	(170 005)	170 005	-
Bank charges	(155 713)	-	(155 713)
Bursaries	(853 521)	-	(853 521)
Chemicals and cleaning materials	(5 715 203)	5 715 203	-
Delegations	(1 074 291)	(50 000)	(1 124 291)
External audit	(2 338 424)	-	(2 338 424)
Fuel and oil	(3 923 854)	3 923 854	-
IDP externally funded projects	(30 553 612)	30 553 612	-
IDP internally funded projects	(100 109 610)	100 109 610	-
Indigent burials	(79 395)	79 395	-
Insurance	(1 099 788)	(1 741 122)	(2 840 910)
Landfill site rehabilitation	(3 221 398)	-	(3 221 398)
Legal fees	(1 945 356)	1 945 356	-
Levies/Professional fees	(1 916 467)	(16 357)	(1 932 824)
Licenses	(1 001 067)	(612 121)	(1 613 188)
Personal protective equipment	(859 784)	(193 843)	(1 053 627)
Printing and postage	(1 911 508)	1 911 508	-
Publicity	(1 852 330)	1 852 330	-
Refreshments	(401 861)	401 861	-
Rent - plant	(8 210 271)	8 210 271	-
Rent - office	(112 390)	112 390	-
Skills development levy	(1 318 760)	-	(1 318 760)
Small tools	(101 966)	-	(101 966)
Staff medical examinations	(291 000)	291 000	-
Stores and material	(193 938)	193 938	-
Subsistence and travelling	(3 394 969)	(3 284 901)	(6 679 871)
Telephone	(1 936 713)	(1 117 366)	(3 054 079)
Training costs	(2 466 969)	2 466 969	-
Workmens compensation	(821 297)	821 297	-
Municipal services	-	(26 990 237)	(26 990 237)
Archives	-	(174 173)	(174 173)
Deeds	-	(11 189)	(11 189)
Personnel agency fees	-	(75 535)	(75 535)
Inventory - materials and supplies	-	(9 670 350)	(9 670 350)
Inventory - consumable stores	-	(9 471 384)	(9 471 384)
Courier and delivery	-	(10 582)	(10 582)
Postage services	-	(353 675)	(353 675)
Vehicle tracking services	-	(40 070)	(40 070)
Operating leases	-	(24 844 015)	(24 844 015)
Resettlement costs	-	(14 560)	(14 560)
	(179 946 095)	75 423 938	(104 522 158)

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

During the financial year the municipality has commenced with the implementation of the MSCOA regulations as issued by the MFMA, as such, and read in conjunctions with the prescripts of the Standards of General Recognised Accounting Practice (GRAP) and specifically that of GRAP 17 the municipality has reclassified its assets into more appropriate asset classes in order to ensure there is alignment. The total carrying value for property, plant and equipment for 2016/2017 financial has not been affected by the MSCOA reclassification, however the adjustment on depreciation for fully depreciated assets still in use, amounting to R4 224 534 (refer to note 42) has subsequently increased the carrying value from R 2 151 558 643 to R2 155 783 173. The impact of the MSCOA reclassification on the classes of assets disclosed in note 8 is outlined below.

Effect on property, plant and equipment cost - note 8

	Pre MSCOA	Reclassification	Post MSCOA
Buildings	68 842 013	(68 842 013)	-
Land	12 413 300	(12 413 300)	-
Infrastructure under construction	950 629 425	(950 629 425)	-
Other assets under construction	914 080	(914 080)	-
Infrastructure	1 511 573 967	(4 434 410)	1 507 139 557
Other assets	41 202 645	70 848 915	112 051 560
Assets under construction	-	951 543 505	951 543 505
Community assets	-	14 840 808	14 840 808
	2 585 575 430		- 2 585 575 430

Effect on property, plant and equipment accumulated depreciation - note 8

	Pre MSCOA	Reclassification	Post MSCOA
Buildings	(19 326 896)	19 326 896	-
Infrastructure	(390 836 143)	(526 258)	(391 362 399)
Other assets	(23 853 748)	(12 213 679)	(36 067 425)
Community assets	-	(2 362 425)	(2 362 424)
	(434 016 787)	4 224 534	(429 792 248)

Effect on property, plant and equipment carrying value - note 8

	Pre MSCOA	Reclassification	Post MSCOA
Buildings	49 515 117	(49 515 117)	-
Land	12 413 300	(12 413 300)	-
Infrastructure under construction	950 629 425	(950 629 425)	-
Other assets under construction	914 080	(914 080)	-
Infrastructure	1 120 737 824	(4 960 662)	1 115 777 158
Other assets	17 348 897	58 635 238	75 984 135
Assets under construction	-	951 543 505	951 543 505
Community assets	-	12 478 375	12 478 375
	2 151 558 643	4 224 534	2 155 783 173

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

42. Prior-year adjustments

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice and the aggregate effect of the prior year adjustments in the annual financial statements for the period ended 30 June 2018 presented below are those items contained in the statement of financial position, statement of financial performance, and statement of changes in net assets that have been affected by prior-year adjustments.

Adjustments to property, plant and equipment

In the current financial year the municipality accounted for depreciation amounting to R4 224 534 (opening balance adjustment of R2 816 337 and 2016/2017 depreciation of R1 408 195) pertaining to fully depreciated assets still in use.

Statement of Financial Position

Effect on non current assets - Property, plant and equipment

Previously reported 2016/2017	2 151 558 642
Adjustment to depreciation - opening balance	2 816 337
Adjustment to depreciation for 2016/2017	<u>1 408 195</u>
Restated 2016/2017	<u>2 155 783 174</u>

Statement of Financial Performance

Effect on depreciation, amortisation and impairment for the year ended 30 June 2017

Previously reported	62 352 532
Adjustment to depreciation	<u>(1 408 195)</u>
Restated	<u>60 944 337</u>

Effect on surplus for the year ended 30 June 2017

Previously reported	296 967 712
Adjustment depreciation	<u>1 408 195</u>
Restated	<u>298 375 907</u>

Statement of Changes in Net Assets

Effect on accumulated surplus

Previously reported balance as at 1 July 2016	2 072 369 305
Adjustment to depreciation	<u>2 816 339</u>
Restated balance as at 1 July 2016	<u>2 075 185 644</u>

Previously reported balance as at 1 July 2017	2 369 337 017
Adjustment to depreciation - opening balance	2 816 339
Adjustment to depreciation for 2016/2017	<u>1 408 195</u>
Restated balance as at 1 July 2017	<u>2 373 561 555</u>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

43. Budget and Actual amount variances

Variances greater than 10 % with a value not less than R500 000 as referenced on The Statement of Comparison of Budget and Actual amounts, as reflected on page 9 to page 11 are set out below:

Statement of financial performance

43.1 Rental income

The variance between the budget and actual amounts are attributable to the elimination of transactions for the distribution of income for the municipal entities, which is only determined at year end. Furthermore, the pending termination process impacted on the full distribution being received from the Trust in the year.

43.2 Interest received

The variance between budget and actual amounts are attributable to the prudent monitoring and investing of available funds.

43.3 Other income

The variance between the budget and actual amounts are attributable mainly to the insurance payout received for a staff member that passed away in the financial year, which could not have been anticipated.

43.4 Depreciation, amortisation and impairment

The variance between the budget and actual amounts are attributable to the municipality budgeting for an increase in completed projects.

Statement of financial position

43.5 Inventories

The variance is attributable to the prudent setting of minimum stock holdings thereby ensuring inventory is available for projects as well as ensuring that capital is not tied up unnecessarily.

43.6 Receivables from exchange transactions - consumer debtors and VAT

The variance is mainly attributable to the increase in outstanding debtors in the category of domestic consumers. The increase in domestic consumers category is as a result of economic pressures which negatively impacts the ability of poorer households to settle their municipal accounts. Furthermore departments do not settle their municipal accounts timeously.

The budget assumption for VAT receivable is that SARS will refund VAT claimable in a timely manner and thus no budget allocation assigned thereto.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

43.7 Receivables from non exchange transactions

The variance is mainly attributable to the decrease in debtors raised for the Department of Water and Sanitation and Municipal Infrastructure grant, for water project expenditure incurred in the year under review, as a result of improved turnaround strategies to ensure spending is in line with allocations.

43.8 Cash and cash equivalents

The municipality budgeted to have a bank account balance of R44 279 000 and an investment holding of R340 000 000, however the cash book and investment holding as at 30 June 2018 amounted to R148 278 926 and R350 000 000 respectively. The variance is as a result of cash backing of provisions and accumulated depreciation to a limited extent.

43.9 Property, plant, equipment, intangibles and heritage assets

The variance is mainly attributable to the net carrying values in the budget not being updated with the audited outcomes and therefore increasing the estimated net carrying value for the year under review.

43.10 Investments in municipal entities

The variance is attributable to the finalisation of the dissolution of the Uthungulu House Development Trust, with the final distribution to be received in 2018/2019.

43.11 Payables from exchange transactions

The variance is attributable to an increase in spend on capital project towards the latter part of the year, related accruals and the subsequent increase in retentions held.

43.12 Consumer deposits

The variance is mainly attributable to an amendment in the indigent policy which has lead to many consumers becoming eligible for indigent benefits, one of the benefits being the exemption from levied deposits.

43.13 Defined employee benefit obligations - current and non current

The variance is attributable to assumed variables and demographical profiles of membership which actuarial valuations are based on, and these estimates are only calculated at year end.

43.14 Provisions - current and non current

The municipality budgeted for performance bonuses for all six section 57/56 positions, however the provision is calculated on only four section 57/56 positions, as two were vacant in the year under review. Furthermore, the non current provision includes the yearly assessment of the rehabilitation of the landfill site. The calculation is performed by a professional engineer, and as such the costs are difficult to estimate accurately due to inflation and other economic factors used in the calculation.

43.15 Unspent conditional grants and receipts

The municipality budgeted on fully expending grant allocations received for the year, however an amount of R2 940 553 remained unspent at year end. The variance is primarily as a result of a grant of R1 500 000 from COGTA only being received towards the latter part of the financial year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

Cash flow statement

43.16 Receipts from consumers and other

The variance between the budget and actual amounts are primarily attributable to the municipality recording an increased amount of billed municipal service charges as the drought subsides.

43.17 Interest income

Refer to disclosure under 43.2

43.18 Transfers and subsidies

The variance is attributable to an additional allocation to the King Cetshwayo Fresh Produce Market Pty.

43.19 Payment for property, plant and equipment

The variance between budget and actuals is attributable the fact that the budget includes VAT on grants and accruals.

43.20 Distribution of capital from municipal entities

Refer to disclosure under 43.10

43.21

The movement in consumer deposits budget is a requirement on the National Treasury budget template, however the actual movement has been accounted for in the net cash flows from operating activities.

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
44. Unauthorised, Fruitless & Wasteful and Irregular expenditure		
Non cash donation of building	-	5 506 354
Adjustment budget approval by Council	-	(5 506 354)
	-	-

2016/2017

The amount of R5 506 354 as disclosed above is attributable to a non cash donation of assets to the municipal entity, Uthungulu Fresh Produce Market Pty, now known as King Cetshwayo Fresh Produce Market Pty. The municipality received a grant from COGTA in the previous financial years for the Municipal Entity. The budget and related expenditure for these asset transactions were incurred and approved in the 2014/2015 financial year.

In the 2015/2016 financial year, the transfer of the building was effected after an approval from Council, resolution UDMC: 2822/2016, dated 24 February 2016; and the non-cash book entry (Transfer/disposal from the asset register) was recorded as a donation in the Statement of Financial Performance. The non-cash donation was not budgeted for in the 2015/2016 financial year which resulted in the actuals exceeding the budget by R5 506 354.

An adjustment budget to provide for the non cash donation was approved in an adjustment budget by Council on the 29 June 2017 KCDM:611/2017 as per Section 32(2)(a)(i) of the MFMA prior to the end of the 2016/2017 financial year.

45. Water distribution losses

The department of Water and Sanitation considers any losses below that of 25 % as an acceptable norm. The calculated loss of 23% is therefore considered acceptable. The Technical Department has, during the course of 2017/2018, appointed consultants on a three year project to address water loss management within King Cetshwayo District Municipality, this project is aimed at reducing losses further.

46. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns and benefits for all stakeholders, while delivering sustainable services and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the long-term liabilities as disclosed in note 13, cash and cash equivalents disclosed in note 7, and equity as disclosed in the statement of financial position.

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
Gearing ratios		
The gearing ratio as at June 2018 and June 2017 restated respectively were as follows:		
Total borrowings		
Long-term liabilities	13	44 461 654
Less: Cash and cash equivalents	7	55 067 152
Net cash		498 282 726
Total equity		503 357 452
		(453 821 072) (448 290 300)
		2 483 440 055 2 373 561 551
Total capital		2 029 618 983 1 925 271 251
	2,19%	2,87%

The comparative figure for total equity for 2016/2017 has been restated by an amount of R4 224 534 to R2 373 561 551 from R2 369 337 017. Refer to note 42.

Financial risk management

Financial Risk Management Objectives

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. The municipality's financial services function monitors and manages the financial risks relating to the operation of the municipality. These risks include credit risk and liquidity risk.

Liquidity risk

Liquidity risk refers to the ability of an entity to meet its obligations associated with financial liabilities.

The municipality's liquidity risk pertains to whether funds are available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit obligations.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored. The liquidity ratio is outlined below:

Current Assets	619 810 274	621 509 425
Current Liabilities	277 444 997	269 470 408
	2,23:1	2,31:1

Interest rate risk

The municipality limits its exposure to interest rate fluctuations by only dealing with well-established institutions and opting for fixed interest rates rather than variable rates.

King Cetshwayo District Municipality
Annual Financial Statements for the year ended 30 June 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
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Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party. Debtors comprise of mainly water, sanitation and refuse users, dispersed across different industries and geographical areas. Ongoing evaluations are performed on the financial condition of these debtors and have been presented in these financial statements net of a provision for impairment. In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", which ever procedure is applicable in terms of Councils credit control and debt collection policy.

Financial assets exposed to credit risk as at year end were as follows:

Financial instrument		
Investments	350 000 000	305 000 000
Cash and cash equivalents	148 282 726	198 357 452
Receivables from exchange and non exchange transactions	115 443 606	112 378 064

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

47. Re-determination of boundaries

2016/2017

Re-determination of boundaries in terms of Section 21 of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998) - Gazette No. 1594 dated 28 January 2016 and published notice No. 152 of 2016.

In terms of the re-determination of boundaries, Ntambanana Local Municipality has been incorporated into Umfolozi Local Municipality, uMhlathuze Local Municipality and Mthonjaneni Local Municipality.

The District is the Water Service Authority for the entire District with exception of KZ 282 - uMhlathuze Local Municipality and therefore both water infrastructure assets and debtors for the affected wards (wards 5, 6, 7 and 8) have been transferred to KZ 282. The effective date of the transfer is at the date of the declaration of results by the Electoral Commission.

a) The water infrastructure assets affected by the above event amounts to R8 757 243 and R5 624 601 being the cost price and carrying value as at 10 August 2016 respectively. Refer to note 8.

b) A debtor of R1 212 559 has been raised to accommodate both the debtors transferred for consumer debtors and service related expenditure incurred on their behalf. Refer to note 5.

c) A creditor of R37 561 has been raised for debtor payments received in advance. Refer to note 14.

48. Municipal Name Change

Re naming of the District Municipality

In terms of Section 12 of the Local Government: Municipal Structures Act, 1998: Repeal and Replacement of establishment notice for the King Cetshwayo District Municipality (DC 28), the District municipality has changed its name from Uthungulu District Municipality to King Cetshwayo District Municipality effective from 21 July 2016.

49. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated surplus of 2 483 440 055 and that the municipality's total assets exceed its liabilities by 2 483 440 055.

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

50. Events after the reporting date

At the date of submission of the annual financial statements there were no known adjusting events.