eDumbe Local Municipality
Financial statements
for the year ended 30 June 2016
Auditor General of South Africa
Registered Auditors

## General Information

| | |
|---|---|
| **Legal form of entity** | Local Municipality |
| **Nature of business and principal activities** | The main purposes of the municipality is to engage in local governance activities,which include planning and promotion of integrated development planning, economic and enviromental development and provision of services to the community. The municipality provides services such as electricity services, refuse removal, public safety services. |
| **Mayoral committee** | |
| Honourable Mayor | Cllr BM Nxusa |
| Councillors | Cllr S Mkhabela (Deputy Mayor) |
| | Cllr NR Simelane(Speaker) |
| | Cllr SJ Kunene (EXCO member) |
| | Cllr RC Gevers |
| | Clllr NM Nhlabathi |
| | Cllr DZ Mtshali |
| | Cllr SE Thela |
| | Cllr TP Sibeko |
| | Cllr ND Ndlangamandla |
| | Cllr MP Khumalo |
| | Cllr IAT Mbatha |
| | Cllr NZ Keswa |
| | Cllr TB Shabalala |
| **Grading of local authority** | 3 |
| **Chief Finance Officer (CFO)** | Mr S Mngwengwe |
| **Accounting Officer** | Mr TV Mkhize |
| **Registered office** | 10 Hoog Street<br>PaulPietersburg<br>3180 |
| **Business address** | 10 Hoog Street<br>PaulPietersburg<br>3180 |
| **Postal address** | Private Bag X308<br>PaulPietersburg<br>3180 |
| **Bankers** | First National Bank |
| **Auditors** | Auditor General of South Africa<br>Registered Auditors |

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


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**Abbreviations**

| | |
|---|---|
| CRR | Capital Replacement Reserve |
| DBSA | Development Bank of South Africa |
| GRAP | Generally Recognised Accounting Practice |
| GAMAP | Generally Accepted Municipal Accounting Practice |
| HDF | Housing Development Fund |
| IAS | International Accounting Standards |
| IMFO | Institute of Municipal Finance Officers |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant (Previously CMIP) |

# Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

The municipality is wholly dependent on the XXXX Municipality for continued funding of operations. The financial statements are prepared on the basis that the municipality is a going concern and that the XXXX Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

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

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The financial statements set out on pages 4 to 76, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed on its behalf by:

**Accounting Officer**
**Mr TV Mkhize**

# Statement of Financial Position as at 30 June 2016

| Figures in Rand | Note(s) | 2016 | 2015 Restated* |
|---|---|---|---|
| **Assets** | | | |
| Current Assets | | | |
| Inventories | 3 | 135 897 | 287 982 |
| VAT Receivable | 13 | 505 444 | - |
| Receivables from non-exchange transactions | 5 | 9 993 767 | 6 967 237 |
| Receivables from Exchange Transaction - Consumer debtors | 4 | 3 387 043 | 3 511 785 |
| Cash and cash equivalents | 6 | 719 257 | 1 115 766 |
| | | **14 741 408** | **11 882 770** |
| Non-Current Assets | | | |
| Investment property | 10 | 10 996 786 | 10 996 786 |
| Property, plant and equipment | 7 | 272 970 089 | 243 275 330 |
| Intangible assets | 9 | 23 253 | 35 568 |
| Heritage assets | 8 | 147 149 | 147 149 |
| | | **284 137 277** | **254 454 833** |
| **Total Assets** | | **298 878 685** | **266 337 603** |
| **Liabilities** | | | |
| Current Liabilities | | | |
| VAT Payable | 13 | - | 335 945 |
| Payables from exchange transactions | 12 | 36 372 258 | 21 933 705 |
| Consumer deposits | 14 | 231 899 | 229 505 |
| Unspent conditional grants and receipts | 15 | 1 046 138 | 2 769 552 |
| Provisions | 16 | - | 2 591 948 |
| Current Portion of Long-term Liability | 11 | 62 698 | 2 087 677 |
| Finance Lease Obligation | | 2 231 313 | 233 036 |
| | | **39 944 306** | **30 181 368** |
| Non-Current Liabilities | | | |
| Finance lease obligation | 49 | 4 226 144 | 375 849 |
| Employee benefit obligation | 17 | 7 585 000 | 5 783 000 |
| Provisions | 16 | 1 426 244 | 1 357 810 |
| | | **13 237 388** | **7 516 659** |
| **Total Liabilities** | | **53 181 694** | **37 698 027** |
| **Net Assets** | | **245 696 991** | **228 639 576** |
| Reserves | | | |
| Other NDR | | 100 348 | 100 348 |
| Accumulated surplus | | 245 596 643 | 228 539 228 |
| **Total Net Assets** | | **245 696 991** | **228 639 576** |

# Statement of Financial Performance

| Figures in Rand | Note(s) | 2016 | 2015 Restated* |
|---|---|---|---|
| **Revenue** | | | |
| **Revenue from exchange transactions** | | | |
| Service charges | 25 | 19 806 687 | 19 380 120 |
| Rental of facilities and equipment | 50 | 1 345 652 | 1 422 698 |
| Licences and permits | | 858 131 | 1 114 965 |
| Other income | 24 | 1 268 380 | 542 957 |
| Interest received - investment | 23 | 298 280 | 276 102 |
| **Total revenue from exchange transactions** | | **23 577 130** | **22 736 842** |
| **Revenue from non-exchange transactions** | | | |
| **Taxation revenue** | | | |
| Property rates | 19 | 14 055 902 | 7 400 064 |
| **Transfer revenue** | | | |
| Government grants & subsidies | 20 | 94 729 371 | 92 260 839 |
| Fines, Penalties and Forfeits | 22 | 3 588 441 | 3 639 974 |
| **Total revenue from non-exchange transactions** | | **112 373 714** | **103 300 877** |
| **Total revenue** | | **135 950 844** | **126 037 719** |
| **Expenditure** | | | |
| Audit Fees | 26 | (1 366 922) | (990 265) |
| Bulk purchases | 27 | (16 679 087) | (15 245 219) |
| Contracted services | 28 | (3 547 277) | (2 822 149) |
| Debt Impairment | 21 | (8 115 818) | (5 710 523) |
| Depreciation and amortisation | 7 | (10 982 285) | (7 796 973) |
| Employee related costs | 29 | (37 011 531) | (30 631 290) |
| Finance Cost | 30 | (3 454 281) | (1 066 089) |
| General Expenses | 31 | (27 114 905) | (19 558 141) |
| Impairment loss - Traffic Fines | | (2 062 153) | (4 192 897) |
| Lease rentals on operating lease | 33 | (751 696) | (1 945 244) |
| Remuneration of councillors | 34 | (5 216 844) | (4 651 836) |
| Repairs and maintenance | | (2 011 838) | (1 271 017) |
| Operating Grant Expenses | 32 | (5 417 057) | (5 988 261) |
| **Total expenditure** | | **(123 731 694)** | **(101 869 904)** |
| **Operating surplus** | | **12 219 150** | **24 167 815** |
| (Loss) gain on disposal of assets and liabilities | | (177 279) | 45 919 |
| Actuarial gains/losses | 17 | (802 238) | (403 184) |
| | | **(979 517)** | **(357 265)** |
| **Surplus for the year** | | **11 239 633** | **23 810 550** |

The accounting policies on pages 15 to 39 and the notes on pages 40 to 76 form an integral part of the financial statements.

## Statement of Changes in Net Assets

| Figures in Rand | Other NDR | Accumulated surplus | Total net assets |
|---|---|---|---|
| Opening balance as previously reported | 100 348 | 202 213 950 | 202 314 298 |
| Adjustments | | | |
| Correction of errors | - | 2 514 728 | 2 514 728 |
| **Balance at 01 July 2014 as restated*** | **100 348** | **204 728 678** | **204 829 026** |
| Changes in net assets | | | |
| Deficit for the year | - | 23 810 550 | 23 810 550 |
| Total changes | - | 23 810 550 | 23 810 550 |
| **Restated* Balance at 01 July 2015** | **100 348** | **228 539 228** | **228 639 576** |
| Changes in net assets | | | |
| Changes in net assets | - | 5 817 782 | 5 817 782 |
| Net income (losses) recognised directly in net assets | - | 5 817 782 | 5 817 782 |
| Surplus for the year | - | 11 239 633 | 11 239 633 |
| Total recognised income and expenses for the year | - | 17 057 415 | 17 057 415 |
| Total changes | - | 17 057 415 | 17 057 415 |
| **Balance at 30 June 2016** | **100 348** | **245 596 643** | **245 696 991** |

Note(s)

# Cash Flow Statement

| Figures in Rand | Note(s) | 2016 | 2015 Restated* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Sale of goods and services | | 29 175 366 | 30 362 796 |
| Grants | | 93 005 957 | 89 260 946 |
| Interest income | | 298 280 | 276 102 |
| | | 122 479 603 | 119 899 844 |
| **Payments** | | | |
| Employee costs | | (33 716 192) | (32 243 084) |
| Suppliers | | (44 098 656) | (48 173 062) |
| Finance costs | | (2 863 979) | (1 066 089) |
| Remuneration for Councillors | | (5 216 844) | (4 651 836) |
| | | (85 895 671) | (86 134 071) |
| **Undefined difference compared to the cash generated from operations note** | | **1** | **-** |
| **Net cash flows from operating activities** | 35 | **36 583 933** | **33 765 773** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 7 | (32 793 127) | (34 397 190) |
| Proceeds from sale of property, plant and equipment | 7 | - | 80 476 |
| Proceeds from sale of non- current receivables | | - | 137 648 |
| **Net cash flows from investing activities** | | **(32 793 127)** | **(34 179 066)** |
| **Cash flows from financing activities** | | | |
| Movement in current portion of long term liability | | (2 024 979) | 297 355 |
| Medical Retirement | | 68 977 | - |
| Repayment of shareholders loan | | - | - |
| Finance lease payments | | (2 231 313) | (233 036) |
| **Net cash flows from financing activities** | | **(4 187 315)** | **64 319** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(396 509)** | **(348 974)** |
| Cash and cash equivalents at the beginning of the year | | 1 115 766 | 1 464 740 |
| **Cash and cash equivalents at the end of the year** | 6 | **719 257** | **1 115 766** |

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Performance** | | | | | | |
| **Revenue** | | | | | | |
| **Revenue from exchange transactions** | | | | | | |
| Service charges | 29 023 877 | (72 558) | **28 951 319** | 19 806 687 | **(9 144 632)** | The water drought affected the municipality as most consumers were consuming less on electricity since no geysers used. |
| Rental of facilities and equipment | 1 452 010 | 108 766 | **1 560 776** | 1 345 652 | **(215 124)** | Anticipated rent for ZDM offices had some challanges which are still being addressed. |
| Licences and permits | 977 370 | (344 493) | **632 877** | 858 131 | **225 254** | Improvement in terms of attracting more people to come for services even though some activities are still on hold due to rehabilitation of the centre. |
| Other income - (rollup) | 1 069 113 | (462 074) | **607 039** | 1 268 380 | **661 341** | Insurance amount which was not anticipated was received of R800 000. |
| Interest received - investment | 150 000 | 16 115 | **166 115** | 298 280 | **132 165** | Investment done and interest on primary account received were more than anticipated. |
| **Total revenue from exchange transactions** | **32 672 370** | **(754 244)** | **31 918 126** | **23 577 130** | **(8 340 996)** | |

# Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Revenue from non-exchange transactions** | | | | | | |
| **Taxation revenue** | | | | | | |
| Property rates | 8 568 029 | 1 281 233 | **9 849 262** | 14 055 902 | **4 206 640** | SV roll implemented for Natal Spa and Public works properties had a huge impact. |
| **Transfer revenue** | | | | | | |
| Government grants & subsidies | 63 497 500 | 34 691 500 | **98 189 000** | 94 729 371 | **(3 459 629)** | The grants and subsidies included the capital grants which are only recognised as income once the condition is met.. |
| Fines, Penalties and Forfeits | 1 849 241 | 632 877 | **2 482 118** | 3 588 441 | **1 106 323** | The budget was not correctly done because its only included cash to be received not fines to be issued. |
| **Total revenue from non-exchange transactions** | **73 914 770** | **36 605 610** | **110 520 380** | **112 373 714** | **1 853 334** | |
| **Total revenue** | **106 587 140** | **35 851 366** | **142 438 506** | **135 950 844** | **(6 487 662)** | |
| **Expenditure** | | | | | | |
| Personnel | 38 592 835 | (880 391) | **37 712 444** | 37 011 531 | **(700 913)** | They were vacancies which we not filled on time during the year and the resignation of section 57 employees also resulted to underspending |
| Remuneration of councillors | 4 861 911 | 88 892 | **4 950 803** | 5 216 844 | **266 041** | Calculation was not 100% when budget was done. |

# Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| Audit Fees | 1 900 000 | 100 000 | **2 000 000** | 1 366 922 | **(633 078)** | 1% was applied from National Treasury and they paid it to Auditor-General |
| Depreciation and amortisation | 2 047 293 | 792 446 | **2 839 739** | 10 941 646 | **8 101 907** | The budgeting of non-cash items has been a challenge which will be addressed by management |
| Impairment loss/ Reversal of impairments | - | - | **-** | (2 062 153) | **(2 062 153)** | The budgeting of non-cash items has been a challenge which will be addressed by management |
| Finance costs | 150 000 | (70 000) | **80 000** | (3 454 281) | **(3 534 281)** | Amount include the non-cash item which has become a challange to accurately budget for them |
| Lease rentals on operating lease | 1 300 000 | (164 000) | **1 136 000** | (751 696) | **(1 887 696)** | Rentals were closely monitored hence spending was 97% |
| Bad debts written off | - | - | **-** | (8 115 818) | **(8 115 818)** | The budgeting of non-cash items has been a challenge which will be addressed by management |
| Repairs and maintenance | 3 306 667 | (585 667) | **2 721 000** | (2 011 838) | **(4 732 838)** | Underspent due to cash flow. Departments couldn't proceed with processes while municipality doesn't have cash at the bank. |

# Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
| --- | --- | --- | --- | --- | --- | --- |
| Bulk purchases | 18 012 000 | 1 704 896 | **19 716 896** | (16 679 087) | **(36 395 983)** | Billing from Eskom was estimated |
| Contracted Services | 3 480 000 | (80 000) | **3 400 000** | (3 547 277) | **(6 947 277)** | Cut costing measures to monitor the spending was implemented on vehicles and no invoices were sent by Assets consultants |
| Transfers and Subsidies | 300 000 | (300 000) | **-** | (5 417 057) | **(5 417 057)** | Unspent grant from other grants resulted in underspending |
| General Expenses | 30 843 463 | 11 054 313 | **41 897 776** | 29 698 522 | **(12 199 254)** | Non cash items was not taken into account during budgeting which resulted to the overspending. |
| **Total expenditure** | **104 794 169** | **11 660 489** | **116 454 658** | **42 196 258** | **(74 258 400)** | |
| **Operating surplus** | **211 381 309** | **47 511 855** | **258 893 164** | **178 147 102** | **(80 746 062)** | |
| Loss on disposal of assets and liabilities | - | - | **-** | (177 279) | **(177 279)** | The budgeting of non-cash items has been a challenge which will be addressed by management |
| Actuarial gains/losses | - | - | **-** | (802 238) | **(802 238)** | The budgeting of non-cash items has been a challenge which will be addressed by management |
| | **-** | **-** | **-** | **(979 517)** | **(979 517)** | |
| **Surplus before taxation** | **211 381 309** | **47 511 855** | **258 893 164** | **177 167 585** | **(81 725 579)** | |
| **Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement** | **211 381 309** | **47 511 855** | **258 893 164** | **177 167 585** | **(81 725 579)** | |

# Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Position** | | | | | | |
| **Assets** | | | | | | |
| **Current Assets** | | | | | | |
| Inventories | 388 710 | - | **388 710** | 135 897 | **(252 813)** | |
| Current tax receivable | 153 378 | - | **153 378** | 505 444 | **352 066** | |
| Receivables from non-exchange transactions | 9 501 908 | - | **9 501 908** | 9 993 767 | **491 859** | Debt Collection challenges has resulted to the huge amount not paid by customers. |
| Consumer debtors | 6 000 000 | - | **6 000 000** | 3 387 043 | **(2 612 957)** | Debt Collection challenges has resulted to the huge amount not paid by customers |
| Cash and cash equivalents | 2 385 903 | (51 854) | **2 334 049** | 719 257 | **(1 614 792)** | Low rate on collection and high rate on spending result to failure by the municipality to accrue huge amount as investments |
| | **18 429 899** | **(51 854)** | **18 378 045** | **14 741 408** | **(3 636 637)** | |
| **Non-Current Assets** | | | | | | |
| Investment property | - | - | **-** | 10 996 786 | **10 996 786** | |
| Property, plant and equipment | 193 788 389 | 34 971 002 | **228 759 391** | 272 970 089 | **44 210 698** | Project not completed previous year only completed this year affected the additions |
| Intangible assets | - | - | **-** | 23 253 | **23 253** | |
| Heritage assets | - | - | **-** | 147 149 | **147 149** | |
| | **193 788 389** | **34 971 002** | **228 759 391** | **284 137 277** | **55 377 886** | |
| **Total Assets** | **212 218 288** | **34 919 148** | **247 137 436** | **298 878 685** | **51 741 249** | |
| **Liabilities** | | | | | | |
| **Current Liabilities** | | | | | | |
| Other financial liabilities | 1 541 756 | 20 148 | **1 561 904** | - | **(1 561 904)** | |

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
| --- | --- | --- | --- | --- | --- | --- |
| Payables from exchange transactions | 7 000 000 | (3 500 000) | **3 500 000** | 36 372 258 | **32 872 258** | Cash flow challenges is a problem. Cut costing measures will be implemented during 2015/16 to ensure that liability is reduced even though its include the non-cash items |
| Consumer deposits | - | - | **-** | 231 899 | **231 899** | No many account were openned |
| Unspent conditional grants and receipts | - | - | **-** | 1 046 138 | **1 046 138** | Grant was received in December 2014 and the project was Launched by Cogta late in March 2015 which affected the progress on site |
| Provisions | 9 684 530 | - | **9 684 530** | - | **(9 684 530)** | |
| Other liability 1 | - | - | **-** | 62 698 | **62 698** | Cash flow challenge to settle the loan |
| Other liability 3 | - | - | **-** | 2 231 313 | **2 231 313** | |
| | **18 226 286** | **(3 479 852)** | **14 746 434** | **39 944 306** | **25 197 872** | |
| **Non-Current Liabilities** | | | | | | |
| Finance lease obligation | - | - | **-** | 4 226 144 | **4 226 144** | The budget has will be done for a three year circle. |
| Employee benefit obligation | - | - | **-** | 7 585 000 | **7 585 000** | The budgeting of non-cash items has been a challenge which will be addressed by management |
| Provisions | - | - | **-** | 1 426 244 | **1 426 244** | The budgeting of non-cash items has been a challenge which will be addressed by management |

# Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| | **-** | **-** | **-** | **13 237 388** | **13 237 388** | |
| **Total Liabilities** | **18 226 286** | **(3 479 852)** | **14 746 434** | **53 181 694** | **38 435 260** | |
| **Net Assets** | **193 992 002** | **38 399 000** | **232 391 002** | **245 696 991** | **13 305 989** | |
| **Net Assets** | | | | | | |
| **Net Assets Attributable to Owners of Controlling Entity** | | | | | | |
| **Reserves** | | | | | | |
| Other NDR | 100 348 | - | **100 348** | 100 348 | **-** | |
| Accumulated surplus | 193 891 654 | 38 399 000 | **232 290 654** | 245 491 229 | **13 200 575** | Movements which include the addition of the KZN Cogta Grant |
| **Total Net Assets** | **193 992 002** | **38 399 000** | **232 391 002** | **245 591 577** | **13 200 575** | |

The accounting policies on pages 15 to 39 and the notes on pages 40 to 76 form an integral part of the financial statements.

# Accounting Policies

### 1. Presentation of Financial Statements

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

Accounting policies for material transactions, events or conditions not covered by the GRAP Standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (SA GAAP) including any interpretations of such Statements issued by the Accounting Practices Board.

These annual financial statements have been prepared in accordance with the South African Standards of Generally Recognised Accounting Practice (GRAP), as prescribed by the Minister of Finance in terms of Government Gazette number 31021, Notice Number 5116 dated 9 May 2008 and also in terms of the standards and principles contained in Directives 3 and 5 issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

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

### 1.1 Presentation currency

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

### 1.2 Going concern assumption

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

### 1.3 Comparative figures

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

Where accounting errors or a change in accounting policy have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

The principle accounting policies adopted in the preparation of these annual financial statements are set out below.

### 1.4 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are insignificant to the financial statements are set out below:

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

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

**Impairment testing**

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

# Accounting Policies

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

**Provisions**

Provisions were raised and management determined an estimate based on the information available.

**Useful lives of property, plant and equipment**

Management estimates the remaining useful lives and condition of significant items of property, plant and equipment on an annual basis. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a significant impairment of the respective asset.

**Post retirement benefits**

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

**Effective interest rate**

The municipality used the prime interest rate to discount future cash flows.

**Allowance for doubtful debts**

The provision for impairment is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the effective interest rate computed at initial recognition. An impairment loss is recognised in surplus and deficit when there is objective evidence that an asset is impaired. The impairment is measured with reference to historical data and payment trend analysis per group of consumers.

### 1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost or fair value.

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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.

The costs an item of property, plant and equipment acquired in exchange for a non-monetary asset or monetary assets or a combination of monetary and non-monetary assets is measured at its fair value. If the acquired item cannot be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

# Accounting Policies

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

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

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

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

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

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

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

Incomplete construction work is stated on historical cost. Depreciation only commences when the assets is available for use.

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

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

The cost or fair value of property, plant and equipment is depreciated using the straight line method over the period of the estimated useful lives of the assets. Depreciation on new acquisitions is charged to the Statement of Financial Performance in the financial year that economic benefits accrue to the municipality.

The annual depreciation rates are based on the following estimated asset lives have been assessed as follows:

| Item | Depreciation method | Average useful life |
| --- | --- | --- |
| Infrastructure | | |
| • Road structures - Kerbing | | 50 |
| • Road structures - Road Base | | 50 |
| • Road structures - Road Surfaces | | 20 |
| • Bridges | | 80 |
| • Pedestrian Malls | | 20 - 30 |
| • Electricity | | 30-50 |
| • Storm Water | | 60 |
| Community | | |
| • Buildings | | 25 |
| • Recreational Facilities | | 25 - 30 |
| Other | | |
| • Buildings | | 25 |
| • Vehicles | | 7 |
| • Office Equipment | | 5 |
| • Furniture and Fittings | | 7 |
| • Other items of Plant and Equipment | | 3 - 10 |
| • Landfill sites | | 25 - 55 |
| • Leased Assets | | Period of lease |

# Accounting Policies

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

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

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

Each part of an item of 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.

The carrying amount of 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 or disposal.

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.

### 1.6 Investment property

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

At initial recognition, the municipality measures the investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property at no cost or for a nominal value), its cost is its fair value as at the date of acquisition.

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

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognise in the carrying amount of the investment property, the carrying amount of the replacement part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value. The fair value of investment property reflects market condition at the reporting date. A gain or loss arising from a change in fair value is included in the net surplus/ deficit for the period in which it arises. If the fair value of investment property under construction is not determinable, it is measured at cost until the earlier of the date it becomes determinable or construction is complete.

### 1.7 Intangible assets

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

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

### 1.7 Intangible assets (continued)

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

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

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

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.

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

Expenditure that enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the software.

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

| **Item** | **Useful life** |
|---|---|
| Computer software, other | 3-5 years |

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

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

### 1.8 Heritage assets

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

### 1.8 Heritage assets (continued)

Where the carrying amount of an item of heritage asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Where items of heritage asset have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of the impairment is recognised in the Statement of Financial Performance.

**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.

### 1.9 Financial instruments

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

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

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

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

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

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

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

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

A financial asset is:

## Accounting Policies

**1.9 Financial instruments (continued)**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- derivatives;
- combined instruments that are designated at fair value;

**1.9 Financial instruments (continued)**

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

**Initial recognition**

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

The entity recognises financial assets using trade date accounting.

**Initial measurement of financial assets and financial liabilities**

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

Held-to-maturity Investments and Loans and Receivables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the effective interest method, less any accumulated impairment losses.

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

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

**1.10 Leases**

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

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

**Finance leases - lessor**

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

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

**Finance leases - lessee**

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

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

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

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

# Accounting Policies

### 1.10 Leases (continued)

**Operating leases - lessor**

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

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

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

**Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. Any contingent rents are expensed in the period in which they are incurred.

### 1.11 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In general, the basis of allocating costs to inventory items is the weighted average method.

**Subsequent measurement**

Inventories, consisting of consumable stores and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Where inventories are acquired at no cost, or for nominal consideration, their costs shall be their fair value as at the date of the acquisition. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

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

### 1.12 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

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

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

**Identification**

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

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

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

**Value in use**

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

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

**Discount rate**

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

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

**Recognition and measurement**

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

An impairment loss of assets is carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

Any impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows: .

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the recognises a liability only to the extent that is a requirement in the Standard of GRAP.

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

**Cash-generating units**

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

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

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

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

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

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

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

# Accounting Policies

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

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

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

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

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

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

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

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

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

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

**Identification**

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

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

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

**Value in use**

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

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

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

**Recognition and measurement**

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

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

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

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

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

### 1.14 Employee benefits

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

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

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

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

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

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

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

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

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

## Accounting Policies

**1.14 Employee benefits (continued)**

**Short-term employee benefits**

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

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

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

**Post-employment benefits**

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

**Post-employment benefits: Defined contribution plans**

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity. The municipality will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:
- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

### 1.14 Employee benefits (continued)

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

### 1.14 Employee benefits (continued)

**Post-employment benefits: Defined benefit plans**

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:
- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

## Accounting Policies

**1.14 Employee benefits (continued)**

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

### 1.14 Employee benefits (continued)

**Actuarial assumptions**

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

### 1.15 Provisions and contingencies

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

# Accounting Policies

### 1.15 Provisions and contingencies (continued)

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 44.

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

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

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

**Landfill sites**

The Landfill Rehabilitation Provision is created for the rehabilitation of the current operatinal sites at the future estimated time of closure.The value of the provision is based on the expected future cost to rehabilitate of the various site discounted back to the statement of position at the cost of capital.

**1.15 Provisions and contingencies (continued)**

The municipality has an obligation to rehabilitate these Landfill sites. The cost of such property includes the initial estimate of the cost of rehabilitating the land and restoring the site on which it is located, the obligation which the municipality incurs as a consequenceof having used the property during a particular for landfill purposes. The municipality estimates the useful lives and makes assumption to the useful lives of these assets, which influences the provision for future costs.

**1.16 Revenue from exchange transactions**

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

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

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

Interest is recognised on a time proportion basis. The interest on arrears account are currently not charged but the situation will be reviewed in future.

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

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered and the fee has been charged or licences and permits have been issued.

Revenue for agency services is recognised on a monthly basis once the revenue collected on behalf of agents has been quantified and once the terms of the agency agreement have been complied with.

Revenue from the sales of goods is recognised when the risk is passed to the consumer.

**Measurement**

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

**1.17 Revenue from non-exchange transactions**

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

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

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

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

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

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

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

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

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others. The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

**Recognition**

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

**Measurement**

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

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

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

**Fines**

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

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality. The full amount of traffic fines issued during the year is recognised at the initial transaction date as revenue in accordance with IGRAP1. Assessing and recognising impairment is an event that takes place subsequent to the initial recognition of revenue charged. The municipality assesses the probability of collecting revenue when accounts fall into arrears based on historic trends

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

### 1.18 Investment Income

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

### 1.19 Borrowing costs

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

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

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

### 1.20 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.21 Fruitless and wasteful expenditure

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

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.22 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the MFMA requires the following (effective from 1 April 2008):

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

### 1.22 Irregular expenditure (continued)

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

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

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

### 1.23 Housing development fund

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

### 1.24 Risk management of financial assets and liabilities

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

Risks and exposure are disclosed as follows:

**Credit Risk:**
- Each class of financial instrument is disclosed separately.
- Maximum exposure to credit risk not covered by collateral is specified.
- Financial instruments covered by collateral are specified.

**Liquidity Risk**

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. A maturity analysis for financial assets and liabilities that shows the remaining contractual maturities.

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

A maturity analysis for financial liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in the notes to the annual financial statements.

**Interest - Rate Risk**

Interest rate risk originates from the uncertainty about the fair value or future cash flows of a financial instrument which fluctuate because of changes in market interest rates.

### 1.24 Risk management of financial assets and liabilities (continued)

Borrowings issued at variable rates expose the municipality to cash flow interest rate risk.

Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

Management has assessed the impact of interest rate risk on the operations of the municipality and considers the risk to be negligible.

**Market Risk**

Owing to legislative restrictions the municipality has no exposure to market risk.

### 1.25 Commitments

Commitments are not recognised. Commitments are disclosed in the notes to the annual financial statements. A commitment is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

### 1.26 Related parties

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

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

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

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

### 1.27 Budget information

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

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

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

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

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

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

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

Comparative information is not required.

# Accounting Policies

### 1.28 Value Added Tax

The municipality accounts for Value Added Tax on the accrual basis in the Annual Financial Statements. However VAT is declared to the South African Revenue Services as input VAT or output VAT only when payments are made to the supplier or payments are received for goods or services. The net difference of VAT payable/ receivable on output VAT on Debtors( where money has not been received) and input VAT on Creditors(accruals where payment has not been made) is disclosed in the Statement of Financial Position.

### 1.29 Share capital / contributed capital

# Notes to the Financial Statements

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

### 2. New standards and interpretations

### 2.1 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2016 or later periods but are not relevant to its operations:

**Standard/ Interpretation:**
- GRAP 18: Segment Reporting
- GRAP 105: Transfers of functions between entities under common control
- GRAP 106: Transfers of functions between entities not under common control
- GRAP 107: Mergers
- DIRECTIVE 11: Changes in measurement bases following the initial adoption of Standards of GRAP

### 3. Inventories

| | 2016 | 2015 |
|---|---|---|
| Consumable stores | 135 897 | 287 982 |

Inventories consist of goods which are held for own use include stationery (photocopying papers), cleaning material and electricity material.

The valuation roll include housing stock (RDP houses) for an amount of R3 049 000 which are still to be transferred to the community.

### 4. Receivables from Exchange Transactions - Consumer debtors

| | 2016 | 2015 |
|---|---|---|
| **Gross balances** | | |
| Electricity | 6 383 335 | 8 163 106 |
| Refuse | 65 280 205 | 58 873 325 |
| | **71 663 540** | **67 036 431** |
| **Less: Allowance for impairment** | | |
| Electricity | (4 809 193) | (6 234 381) |
| Refuse | (63 467 304) | (57 290 265) |
| | **(68 276 497)** | **(63 524 646)** |
| **Net balance** | | |
| Electricity | 1 574 142 | 1 928 725 |
| Refuse | 1 812 901 | 1 583 060 |
| | **3 387 043** | **3 511 785** |
| **Electricity** | | |
| Current (0 -30 days) | 797 487 | 830 376 |
| 31 - 60 days | 237 025 | 552 933 |
| 61 - 90 days | 203 063 | 545 416 |
| 121 - 365 days | 112 087 | - |
| | **1 349 662** | **1 928 725** |

# Notes to the Financial Statements

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

## 4. Receivables from Exchange Transactions - Consumer debtors (continued)

**Refuse**

| | | |
|---|---|---|
| Current (0 -30 days) | 499 605 | 495 077 |
| 31 - 60 days | 459 748 | 481 036 |
| 61 - 90 days | 473 043 | 469 880 |
| 121 - 365 days | 357 349 | - |
| | **1 789 745** | **1 445 993** |

**Summary of debtors by customer classification (Exchange transactions)**

**Consumers**

| | | |
|---|---|---|
| Current (0 -30 days) | 798 885 | 866 793 |
| 31 - 60 days | 384 855 | 728 277 |
| 61 - 90 days | 458 733 | 935 870 |
| 91 - 120 days | 408 090 | 1 115 593 |
| 121 - 365 days | 2 450 249 | - |
| > 365 days | 60 907 391 | 63 844 271 |
| | 65 408 203 | 67 490 804 |
| Less: Allowance for impairment | (63 713 531) | (65 692 583) |
| | **1 694 672** | **1 798 221** |

**Industrial/ commercial**

| | | |
|---|---|---|
| Current (0 -30 days) | 389 128 | 558 062 |
| 31 - 60 days | 209 032 | 235 711 |
| 61 - 90 days | 202 832 | 393 349 |
| 91 - 120 days | 184 216 | 1 460 594 |
| 121 - 365 days | 1 307 249 | - |
| > 365 days | 3 019 302 | 2 925 727 |
| | 5 311 759 | 5 573 443 |
| Less: Allowance for impairment | (4 562 967) | (4 496 411) |
| | **748 792** | **1 077 032** |

**National and provincial government**

| | | |
|---|---|---|
| Current (0 -30 days) | 109 079 | 95 125 |
| 31 - 60 days | 102 887 | 87 819 |
| 61 - 90 days | 14 541 | 82 409 |
| 91 - 120 days | 21 747 | 104 747 |
| 121 - 365 days | 447 689 | 129 365 |
| | **695 943** | **499 465** |

**Reconciliation of allowance for impairment**

| | | |
|---|---|---|
| Balance at beginning of the year | 63 524 646 | 56 910 680 |
| Contributions to allowance | 4 751 851 | 6 613 966 |
| | **68 276 497** | **63 524 646** |

**Consumer debtors past due but not impaired**

Based on the past experience including the current collection rate, the municipality has taken a decision to impaire 100% its debts which are 90 days overdue for all categories except on property rates where government properties were separately treated. The municipality has experienced the non-payment by consumers which has contributed to the cash flow challenges. At 30 June 2016, 3 139 408 (2015: 3 374 717) was the total receivables not impaired.

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

# Notes to the Financial Statements

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

**4. Receivables from Exchange Transactions - Consumer debtors (continued)**

| | | |
|---|---|---|
| **Included in above is receivables from exchange transactions** | | |
| 1 month past due | 1 297 092 | 1 325 452 |
| 2 months past due | 1 842 316 | 2 049 265 |
| | **3 139 408** | **3 374 717** |

| | | |
|---|---|---|
| **Included in above is receivables from non-exchange transactions (taxes and transfers)** | | |
| The amount of the provision was R 68 276 497 and (2014 R 63 524 645) | - | - |
| 3 to 4 months | 1 326 002 | 1 722 935 |
| 5 months and above | 66 950 495 | 61 801 710 |
| | **68 276 497** | **63 524 645** |

| | | |
|---|---|---|
| **Debtors with Credit Balances** | | |
| Current (0 -30 days) | - | 137 067 |

**Consumer debtors pledged as security**

Consumer debtors have not been pledged as security or encumbered in any way.

**Credit quality of consumer debtors**

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

Consumers debtors are billed monthly, at latest by the end of each month.

The Council has resolved not to charge interest on outstanding debtor account balances at 30 June 2016.

The Council will at a future date determine the terms and conditions for interest to be charged on overdue accounts and the rate thereof.

The municipality enforces its approved credit control policy to ensure the recovery of Consumer Debtors.

The municipality receives applications for services that it processes. Deposits are required to be paid for all electrical accounts opened.

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

The fair value of consumer debtors was determined after considering the standard terms and conditions of agreement entered into between the municipality and Consumer Debtors as well as the current payment ratios of the municipality's consumers.

# Notes to the Financial Statements

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

### 5. Receivables from non-exchange transactions

| | | |
|---|---|---|
| Government grants and subsidies | 1 976 213 | 3 451 256 |
| Traffic Fines | 1 446 038 | 517 623 |
| Consumer debtors - Rates | 6 571 516 | 2 998 358 |
| | **9 993 767** | **6 967 237** |

| | | |
|---|---|---|
| **Gross balances** | | |
| Consumer debtors - Rates | 20 022 837 | 13 085 712 |
| **Less: Allowance for impairment** | | |
| Consumer debtors - Rates | (13 451 321) | (10 087 354) |
| **Net Balances** | | |
| Consumer debtors - Rates | 6 571 516 | 2 998 358 |

| | | |
|---|---|---|
| **Property Rates** | | |
| Current (0- 30 days) | 531 625 | 541 678 |
| 31 - 60 days | 585 592 | 465 189 |
| 61-90 days | 508 625 | 397 056 |
| 91-120 days | 284 190 | - |
| 121-365 days | 4 661 484 | 1 594 435 |
| | **6 571 516** | **2 998 358** |

| | | |
|---|---|---|
| **Summary of debtors by customer classification (Non-Exchanged Transactions)** | | |
| **Consumers** | | |
| Current (0 - 30 days) | 253 102 | 270 839 |
| 31 - 60 days | 254 009 | 232 594 |
| 61 - 90 days | 217 648 | 198 528 |
| 91 - 120 days | 2 107 683 | 100 703 |
| 121 - 365 days | 664 349 | 183 188 |
| > 365 days | 6 643 893 | 6 120 937 |
| Less: Allowance for impairment | (9 415 925) | (6 451 960) |
| Terms and conditions | | |
| | **724 759** | **654 829** |

| | | |
|---|---|---|
| **Industrial/ Commercial** | | |
| Current (0 - 30 days) | 274 194 | 189 587 |
| 31 - 60 days | 275 176 | 162 816 |
| 61 - 90 days | 235 786 | 138 970 |
| 91 - 120 days | 903 293 | 70 492 |
| 121 - 365 days | 284 721 | 128 232 |
| > 365 days | 2 847 383 | 3 331 850 |
| Less: Allowance for impairment | (4 035 396) | (3 585 394) |
| | **785 157** | **436 553** |

| | | |
|---|---|---|
| **National and Provincial Government** | | |
| Current (0-30 days) | 4 328 | 81 252 |
| 31 - 60 days | 56 407 | 69 778 |
| 61 - 90 days | 55 190 | 59 558 |
| 91 - 120 days | 2 502 804 | 30 211 |
| 121 - 365 days | 2 049 443 | 54 957 |
| > 365 days | 109 237 | 16 785 |

## Notes to the Financial Statements

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

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

| | | |
| --- | --- | --- |
| | **4 777 409** | **312 541** |

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

| | | |
| --- | --- | --- |
| Balance at the beginning of the year | 10 087 354 | 10 990 797 |
| Contribution to allowance | 3 363 967 | (903 443) |
| | **13 451 321** | **10 087 354** |

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

Based on the past experience the municipality has taken a decision to impaire 100% of its debts which are 90 days overdue however Property Rates has been treated with an exceptional case due to Public Works engagement and the provision has been done on 90 days for other categories but state owned properties overdue amount were not at all provided for. The municipality has experience the non-payment by consumers which has contributed to the cash flow problem. At 30 June 2016, 6 287 326 (2015: 1 403 923) was the total receivables not impaired.

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

| | | |
| --- | --- | --- |
| 1 month past due | 531 625 | 541 678 |
| 2 months past due | 585 592 | 862 245 |
| 3 months past due | 5 170 109 | - |
| | **6 287 326** | **1 403 923** |

**Government Grants and Subsidies**

The amount spent during 2015/16 financial year, the municipality overspent on some of the grants due to numerous reasons. The Electricifation grant was allowed to overspent since the municipality was spending on the project which will be budgeted in 2016/17 financial year and Municipal Infrastructure Grant was 100% spent during the financial year however after the Rentetions withheld were recognised the grant was then overspent. The amount on Retention will be funded by the 2016/17 Financial Year allocation.

**Receivables from non-exchange past due impaired**

The amount of the provision was 13 451 321 as of 30 June 2016 (2015: 10 087 354).

| | | |
| --- | --- | --- |
| 3 to 6 months | 3 010 975 | 201 405 |
| Over 6 months | 10 440 346 | 9 885 949 |
| | **13 451 321** | **10 087 354** |

# Notes to the Financial Statements

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

## 6. Cash and cash equivalents

Cash and cash equivalents consist of:

| | 2016 | 2015 |
|---|---|---|
| Cash on hand | 319 | 328 |
| Bank balances | 111 880 | 73 636 |
| Short-term deposits | 607 058 | 1 022 322 |
| Other cash and cash equivalents | - | 19 480 |
| | **719 257** | **1 115 766** |
| Current assets | 719 257 | 1 115 766 |

| **The following are the Bank balances at 30 June 2016** | Balances as per Bank Statement | Balance as per Bank Account - Cashbook | Variance |
|---|---|---|---|
| FNB Call Account -61328003233 | 540 644 | 540 644 | - |
| FNB - Call Account 62033660376 | - | - | - |
| FNB - Call Account - 622198848746 | 52 632 | 52 632 | - |
| Grindrod Bank Investment Account | 13 782 | 13 782 | - |
| Petty Cash | 319 | 319 | - |
| FNB - Primary Account | 111 880 | 111 880 | - |
| FNB - Call Account 62421843807 | - | - | - |
| | **719 257** | **719 257** | **-** |

| **The following are the Bank balances at 30 June 2015** | Balances as per Bank Statement | Balance as per Bank Account - Cashbook | Variance |
|---|---|---|---|
| FNB Call Account -61328003233 | 551 329 | 551 329 | - |
| FNB - Call Account 62033660376 | 3 372 | 3 372 | - |
| FNB - Call Account - 622198848746 | 1 972 | 1 972 | - |
| Grindrod Bank Investment Account | 405 987 | 405 987 | - |
| Petty Cash | 328 | 328 | - |
| FNB - Primary Account | 73 636 | 93 116 | (19 480) |
| FNB - Call Account 62421843807 | 59 656 | 59 656 | - |
| Investec Bank Investment Account | 9 157 | 9 157 | - |
| | **1 105 437** | **1 124 917** | **(19 480)** |

## 7. Property, plant and equipment

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** |
| Land | 29 048 000 | - | 29 048 000 | 29 048 000 | - | 29 048 000 |
| Buildings | 94 180 571 | (20 678 552) | 73 502 019 | 89 378 476 | (17 405 583) | 71 972 893 |
| Infrastructure | 103 484 001 | (20 772 031) | 82 711 970 | 96 675 472 | (17 044 685) | 79 630 787 |
| Electricity Infrastructure | 22 778 084 | (2 990 895) | 19 787 189 | 21 597 924 | (2 365 863) | 19 232 061 |
| Other property, plant and equipment | 15 273 680 | (5 471 537) | 9 802 143 | 14 977 312 | (4 941 397) | 10 035 915 |
| Other leased Assets # 2 | 8 892 010 | (2 641 065) | 6 250 945 | 841 920 | (266 194) | 575 726 |
| Specialised vehicles | 2 590 995 | (733 881) | 1 857 114 | 2 274 551 | (541 732) | 1 732 819 |
| Assets under construction | 50 010 709 | - | 50 010 709 | 31 047 129 | - | 31 047 129 |
| **Total** | **326 258 050** | **(53 287 961)** | **272 970 089** | **285 840 784** | **(42 565 454)** | **243 275 330** |

Figures in Rand

**7. Property, plant and equipment (continued)**

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

| | Opening balance | Additions | Disposals | Transfers | Depreciation | Impairment loss | Total |
|---|---|---|---|---|---|---|---|
| Land | 29 048 000 | - | - | - | - | - | 29 048 000 |
| Buildings | 71 972 893 | 4 802 095 | - | - | (3 272 969) | - | 73 502 019 |
| Infrastructure | 79 630 787 | 6 808 529 | - | - | (3 727 346) | - | 82 711 970 |
| Electricity Infrastructure | 19 232 061 | 1 180 160 | - | - | (625 032) | - | 19 787 189 |
| Other Property plant and equipment | 10 035 915 | 689 901 | (163 810) | - | (702 136) | (57 727) | 9 802 143 |
| Other leased Assets # 2 | 575 726 | 8 050 090 | - | - | (2 374 871) | - | 6 250 945 |
| Specialised vehicles | 1 732 819 | 348 860 | (14 496) | - | (210 069) | - | 1 857 114 |
| Assets under construction | 31 047 129 | 31 754 364 | - | (12 790 784) | - | - | 50 010 709 |
| | **243 275 330** | **53 633 999** | **(178 306)** | **(12 790 784)** | **(10 912 423)** | **(57 727)** | **272 970 089** |

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

| | Opening balance | Additions | Disposals | Transfers | Depreciation | Total |
|---|---|---|---|---|---|---|
| Land | 29 048 000 | - | - | - | - | 29 048 000 |
| Buildings | 70 204 343 | 4 673 184 | - | - | (2 904 634) | 71 972 893 |
| Infrastructure | 76 734 973 | 6 152 641 | (5 297) | - | (3 251 530) | 79 630 787 |
| Electricity Infrastructure | 12 063 434 | 7 695 117 | (33 102) | - | (493 388) | 19 232 061 |
| Other property, plant and equipment | 10 566 022 | 178 528 | 3 844 | - | (712 479) | 10 035 915 |
| Other leased Assets # 2 | - | 841 920 | - | - | (266 194) | 575 726 |
| Specialised vehicles | 812 533 | 1 076 719 | - | - | (156 433) | 1 732 819 |
| Assets under construction | 14 541 476 | 35 026 596 | - | (18 520 943) | - | 31 047 129 |
| | **213 970 781** | **55 644 705** | **(34 555)** | **(18 520 943)** | **(7 784 658)** | **243 275 330** |

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

# Notes to the Financial Statements



## 8. Heritage assets

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated impairment losses** | **Carrying value** | **Cost / Valuation** | **Accumulated impairment losses** | **Carrying value** |
| Municipal Mayoral Chain | 147 149 | - | 147 149 | 147 149 | - | 147 149 |

**Reconciliation of heritage assets 2016**

| | **Opening balance** | **Total** |
|---|---|---|
| Municipal Mayoral Chain | 147 149 | 147 149 |

**Reconciliation of heritage assets 2015**

| | **Opening balance** | **Total** |
|---|---|---|
| Municipal Mayoral Chain | 147 149 | 147 149 |

**Pledged as security**

All municipality heritage assets are not pledged as security:

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

## 9. Intangible assets

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated amortisation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated amortisation and accumulated impairment** | **Carrying value** |
| Computer software, other | 111 092 | (87 839) | 23 253 | 111 092 | (75 524) | 35 568 |

**Reconciliation of intangible assets - 2016**

| | **Opening balance** | **Amortisation** | **Total** |
|---|---|---|---|
| Computer software, other | 35 568 | (12 315) | 23 253 |

**Reconciliation of intangible assets - 2015**

| | **Opening balance** | **Amortisation** | **Total** |
|---|---|---|---|
| Computer software, other | 47 883 | (12 315) | 35 568 |

All of the municipality's intangible assets are held under freehold interests and no intangible assets have been pledged as security for any liabilities of the municipality.

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

### 10. Investment property

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** |
| Investment property | 10 996 786 | - | 10 996 786 | 10 996 786 | - | 10 996 786 |

**Reconciliation of investment property - 2016**

| | Opening balance | Total |
|---|---|---|
| Investment property | 10 996 786 | 10 996 786 |

**Reconciliation of investment property - 2015**

| | Opening balance | Total |
|---|---|---|
| Investment property | 10 996 786 | 10 996 786 |

**Fair Value Adjustment**

All of the municipality's Investment Properties are held under freehold interests and no Investment Property has been pledged as security for any liabilities of the municipality. There were no changes on the figures dislosed in 2015 and 2016 due to the valuators opinion which stated that there was no changes or little changes from 2015 to 2016 based on the economic forecast made by three major Banks in South Africa, ABSA, FNB and Nedbank.

The valuation for Investment property was done by EMS Consulting who was subcontracted by Ducharme Consulting. A register of Investment property is available at the municipal office.

### 11. Current portion of Long term Liabilities

| | 2016 | 2015 |
|---|---|---|
| **Current Liabilities** | | |
| At amortised cost - DBSA Loan | - | 1 562 018 |
| Miscellaneous | 57 116 | 503 281 |
| Travel Card | 5 583 | 22 378 |
| | **62 699** | **2 087 677** |

The municipality have settled the DBSA Loan during the financial year (2015/16) therefore the municipality does not have any existing loan.

### 12. Payables from exchange transactions

| | 2016 | 2015 |
|---|---|---|
| Trade payables | 241 | 3 236 |
| Payments received in advanced - contract in process | (93 498) | (77 355) |
| Income received in Advance | 531 825 | 1 731 503 |
| Accruals | 31 487 767 | 17 162 946 |
| Other payables | 1 283 | 1 235 |
| Retention | 1 238 454 | 630 154 |
| Leave Provision/Accruals | 2 148 063 | 1 646 703 |
| Bonus Provision/ Accrual | 1 058 123 | 835 283 |
| | **36 372 258** | **21 933 705** |

# Notes to the Financial Statements

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

## 12. Payables from exchange transactions (continued)

The average credit period on purchases is 30 days from the receipt of the statement, as determined by the Municipal Finance Management Act. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with.

The municipality has financial risk policies in place to ensure that all payables are paid within the credit timeframe.

Payments received in advance is due to payments received for hall hire and prepaid electricity.

Payments received in advance are consumer debtors' accounts paid in advance.

Staff leave and bonuses accrued to the staff of the municipality on an annual basis, subject to certain conditions.

The fair value of creditors was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

## 13. VAT receivable and VAT Payable

| | | |
|---|---|---|
| VAT | 505 444 | 335 945 |

| | | |
|---|---|---|
| **Statement of Financial Position** | | |
| VAT Receivable | 505 444 | - |
| VAT Payable | - | 335 945 |
| | **505 444** | **335 945** |

## 14. Consumer deposits

| | | |
|---|---|---|
| Electricity | 231 899 | 229 505 |

Consumer deposits are paid by consumers on application for new electricity connections. The deposits are repaid when the electricity connections are terminated.

In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account. No interest is paid on Consumer deposits held.

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

The fair value of Consumer deposits was determined after considering the standard terms and conditions of agreements entered into between the municipality and its consumers.

## 15. Unspent conditional grants and receipts

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

| | | |
|---|---|---|
| **Unspent conditional grants and receipts** | | |
| Extended Public Works Programme Grant | 422 535 | 361 116 |
| Art and Culture Grant | 530 120 | 657 435 |
| Cogta Grant | 18 361 | 1 601 730 |
| Sportsfield Maintenance Grant | 75 122 | 149 271 |
| | **1 046 138** | **2 769 552** |

# Notes to the Financial Statements

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

### 15. Unspent conditional grants and receipts (continued)

**Movement during the year**

| | | |
| --- | --- | --- |
| Balance at the beginning of the year | 2 769 552 | 5 769 445 |
| Additions during the year | 94 481 000 | 90 087 000 |
| Income recognition during the year | (96 204 414) | (93 086 893) |
| | **1 046 138** | **2 769 552** |

| | | |
| --- | --- | --- |
| Non-current liabilities | - | - |
| Current liabilities | 1 046 138 | 2 769 552 |
| | **1 046 138** | **2 769 552** |

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

See note 20 for reconciliation of grants from National/Provincial Government.

# Notes to the Financial Statements

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

## 16. Provisions

**Reconciliation of provisions - 2016**

| | Opening Balance | Additions | Total |
| --- | --- | --- | --- |
| Environmental rehabilitation | 1 357 810 | 68 434 | 1 426 244 |
| Legal proceedings | 2 591 948 | (2 591 948) | - |
| | **3 949 758** | **(2 523 514)** | **1 426 244** |

**Reconciliation of provisions - 2015**

| | Opening Balance | Additions | Total |
| --- | --- | --- | --- |
| Environmental rehabilitation | 1 292 660 | 65 150 | 1 357 810 |
| Legal proceedings | - | 2 591 948 | 2 591 948 |
| | **1 292 660** | **2 657 098** | **3 949 758** |

| | 2016 | 2015 |
| --- | --- | --- |
| Non-current liabilities | 1 426 244 | 1 357 810 |
| Current liabilities | - | 2 591 948 |
| | **1 426 244** | **3 949 758** |

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal.

At 30 June 2016 the municipality will incur estimated rehabilitation costs of R 1 426 244 (2015: R 1 357 810) to restore the new landfill site at the end of its useful life, estimated to be 30 years. The amount of rehabilitation is dependent on future costs, technology, inflation and site consumption.

The landfill provision represents management’s best estimate of the Municipality’s liability.

The municipality is currently having two land fill site, the old land fill site is situated near Esikhaleni Area while the new land fill site by the Coal Siding. The municipality is currently not utilizing the old site as Landfill Site since January 2014 and the current status of the old land fill sites shows that there is no traces of a Landfill Site , and therefore the old land fill site do not acquire any provision for closure. The land fill site for both site was conducted by Ducharme Consulting.

The new land fill site is expected to be fully operational until 30 June 2045 and it is assumed that the rehabilitation will only take place thereafter. The calculation of the provision amount for new land fill site was done in 2015/2016 financial year and the report has been issued to the municipality by Ducharme Consulting. The report was concluded and signed on 27 July 2016.

**Provision for Law Suits**

The municipality was sued by Cox and Partners for an amount of R2, 5 m for the services rendered, collection of old debts. The case was conducted in August 2015 and the settlement was reached between two parties to settle the amount. The settlement agreement stipulated terms of payment which had two options, payment in two equal instalments or once-off settlement.

| | 2016 | 2015 |
| --- | --- | --- |
| | - | 2 591 849 |

### 17. Employee benefit obligations

**Post retirement benefit plan**

The municipality's personnel are members of the Natal Joint Municipal Pension retirement funds, namely the Superannuation, Retirement and Provident Funds and there are few member who are GEPF due to the fact that they were employed before the local government sphere was introduced. As the aforementioned funds are multi-employer funds, the allocation of any surplus/deficit to individual municipalities cannot be determined. Furthermore disclosure of further details such as actuarial assumptions, cannot be attributed to any specific municipality and is of no relevance to users of the municipality's financial statements.

An independent valuer carries out a statutory valuation of the NJMPF on a triennial basis and an interim valuation on an annual basis. The findings are extracts from the interim actuarial valuation prepared by Argen Actuarial Solution as at 31 March 2014.

**Retirement Fund**

- The memorandum account in respect of pensioners was fully funded on the discounted cash flow method.
- The Funds liabilities for the contributory members exceeded the value of the assets; it is expected that the shortfall will be funded by a surcharge of 17% of pensionable emoluments by 2015.
- In order to fund the deficit, the surcharge should be increased from 17% to say, 17.5% form 1 July 2014 and the required period be extended from 5 years to 8 years.

**Provident Fund**

The latest statutory valuation of the Provident Fund (defined contribution) as at 31 March 2014 revealed that the fund was in a sound financial position.

**Post employee medical benefit**

**Financial Variables**

| | 2016 | 2015 |
| --- | --- | --- |
| | 5 728 000 | 4 405 000 |
| The two most important financial variables used in our valuation are the discount rate and salary inflation. The assumption has been made for these variables as follows: | | |
| Discount Rate | Yield Curve | Yield Curve |
| CPI (Consumer Price Inflation) | Difference between nominal and yield curve | Difference Between nominal and real yield curve |
| Medical Aid Contribution Inflation | CPI + 1% | Equal to CPI + 1 |
| Net Effective Discount Rate | Yield curve based*** | Yield curve based*** |

**Membership data**

| **Current (in -service) members** | Male | Female | Total |
| --- | --- | --- | --- |
| Number of active employees | 23 | 38 | 61 |
| Subsidy weighted average | 39.80 | 41.60 | 41.00 |
| Subsidy weighted average past service | 8.00 | 7.40 | 7.60 |
| Number of spouses | 5 | 12 | 17 |
| **Average monthly salary payable during the retirement (R)** | **1 330** | **1 600** | **1 500** |

| **Continuation members (Pensioners)** | Male | Female | Total |
| --- | --- | --- | --- |
| Number of continuation members | 1 | 2 | 3 |
| Subsidy weighted average age | 63.0 | 75.50 | 69.80 |
| Average monthly subsidy (R) | 3720 | 2 220.00 | 2 720.00 |

**Subsidy Arrangements**

The Municipality has agreed to subsidise the medical aid contributions of retired members in the following way:

### 17. Employee benefit obligations (continued)

All new pensioners (that are currently still in service) and their dependants will receive a 60% subsidy.

All existing continuation members (pensioners) and their dependants will continue to receive a 100% subsidy.

**Average Retirement Age**

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

**Normal Retirement Age**

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

**Mortality Rates**

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

**Spouses and Dependants**

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

A table setting out the asssumed rates of withdrawal from service is set out below:

| **Decrements withdrawal** | Withdrawal rate Males | Withdrawal rate Females |
|---|---|---|
| Age 20 - 24 | 16 % | 24 % |
| Age 25 - 29 | 12 % | 18 % |
| Age 30 - 34 | 10 % | 15 % |
| Age 35 - 39 | 8 % | 10 % |
| Age 40 - 44 | 6 % | 6 % |
| Age 45 - 49 | 4 % | 4 % |
| Age 50 - 54 | 2 % | 2 % |
| Age 55 - 59 | 1 % | 1 % |
| Age 60 + | - % | - % |
| | - | - |

**Long Service Awards**

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality. The said award comprises of a certain number of additional vacation leave days as prescribed on the Basic condition of employment. The effective date used for the purposes of the vaulation was 30 June 2016.

The most recent actuarial valuations of plan assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2015 by ZAQ Consultants and Actuaries.

| **Membership data** | No. of active employees | Salary weighted avaerage age (Yrs) | Weighted avaerage past srvice (Yrs) |
|---|---|---|---|
| Male | 92 | 42.38 | 8.43 |
| Female | 61 | 41.06 | 8.13 |
| | **153** | **41.83** | **8.30** |

### 17. Employee benefit obligations (continued)

**Long Service Awards Liabilities**

Long service benefits are awarded in the form of a number of leave days awarded once an employee has completed a certain number of years in service.

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

**Financial variables**

The two most important financial variables used in our valuation are the discount rate and salary inflation. The assumption has been made for these variables as follows:

| | | |
| --- | --- | --- |
| Discount Rate | Yield Curve | Yield Curve |
| CPI (Consumer Price Inflation) | Difference between nominal and real yield curve | Difference Between nominal and yield curve |
| Normal Salary Increase Rate | Equal to CPI + 1% | Equal to CPI + 1 |
| Net Effective Discount Rate | Yield Curve Based *** | Yield Curve Based ** |
| | 1 857 000 | 1 378 000 |

**Average Retirement Age**

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

**Normal Retirement Age**

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

**Mortality Rates**

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry.

**Withdrawal Decrements**

A table setting out the assumed rates of withdrawal from service is set out below:

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

# Notes to the Financial Statements

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

**17. Employee benefit obligations (continued)**

| | | |
|---|---|---|
| Age 60+ | - % | - % |

The amount recognised in the Statement of Financial Performance for both Medical Aid and Long service Awards were as follows:

| | | |
|---|---|---|
| Current Finance Costs | 500 000 | 445 000 |
| Interest costs | 595 000 | 408 000 |
| Benefit Paid (Actual) | (95 238) | (51 183) |
| Acturial (Gain)/ Loss | 802 238 | 403 183 |
| | **1 802 000** | **1 205 000** |

**Current Finance Costs**

The last valuation carried out on the Superannuation Fund as at 31 March 2014 reflected:

- The memorandum account in respect of pensioners was 96% funded
- There was a deficit in respect of active members which is being met by the surcharge of 9.5% of pensionable salaries, this surcharge is payable for 8 years with effect from 1 July 2012.
- The required contribution rate for the future service exceeded the contribution rate payable by 3.63% of pensionable salaries.
- The statutory actuarial valuation carried out on the Superannuation Fund as at 31 March 2014 reflected:
- The memorandum account in respect of pensioners was fully funded.
- There was a deficit in respect of active members and it is recommended that the surcharge of 7% be increased to 9.5% of pensionable salaries and that the repayment period be set at 8 years at which time the deficit is expected to be fully funded. The required contribution rate for the future service exceeded the contribution rate payable by 3.63% of pensionable salaries.

**18. Housing Operating Account**

| | | |
|---|---|---|
| Unappropriate surplus | 100 348 | 100 348 |

The Housing Development Fund contains all proceeds from housing developments, which include rental income and sales of houses.

Monies standing to the credit of the Housing Development Fund are used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

The balance of the funding is included in the Municipality's main and call bank account.

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

### 19. Property rates

**Rates received**

| | | |
|---|---|---|
| Residential | 3 373 800 | 2 389 130 |
| Commercial | 2 322 077 | 2 329 573 |
| State | 7 959 610 | 2 515 066 |
| State owned Land | - | - |
| Agricultural | 1 654 676 | 1 005 644 |
| Vacant Land | 605 988 | 830 887 |
| Less: Income forgone | (1 860 249) | (1 670 236) |
| | **14 055 902** | **7 400 064** |

Assessment rates are levied on the value of land and improvements. Valuations on land and buildings are performed every four years. The last valuation was done in 2012/2013 with effective date of the new General Valuation Roll being 01 July 2013. The municipality peformed a supplimentary valuation roll in 2015/16 which was implemented for Public Works properties which reulted to the high increase on the anticipated revenue on Property rates.

**Valuations**

| | | |
|---|---|---|
| Residential | 439 650 000 | 439 650 000 |
| Commercial | 143 490 000 | 143 490 000 |
| State | 204 891 000 | 137 166 000 |
| State owned Land | 120 000 | 120 000 |
| Agricultural | 492 575 000 | 478 575 000 |
| Municipal Properties | 25 545 000 | 25 545 000 |
| Churches (Place of Worship) | 15 375 000 | 15 375 000 |
| Vacant Land | 41 250 000 | 41 250 000 |
| | **1 362 896 000** | **1 281 171 000** |

Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on an monthly basis with the final date for payment being the 15th day of the following month.

Interest at 18 % per annum on all arrear assessment rates and a collection fee of 10 % on the assessment rate instalments,which are two or more months in arrears.

The new general valuation was implemented on 01 July 2013.

**Rebates granted to:**

| | | |
|---|---|---|
| Business | 15 % | 15 % |
| Vacant land | 10 % | - % |
| Churches, Municipal Properties, Communal land and NPO Properties | 100 % | 100 % |

# Notes to the Financial Statements

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

## 20. Government grants and subsidies

**Operating grants**

| | | |
|---|---|---|
| Equitable share | 54 074 000 | 49 450 000 |
| Finance Management Grant | 1 885 547 | 1 821 829 |
| Subsidy Arts and Culture | 1 179 315 | 592 076 |
| Municipal Systems Improvement Grant | 603 681 | 798 556 |
| Sports Development Subsidy | 74 149 | 150 729 |
| Extended Public Works Program Grant | 993 581 | 710 464 |
| | **58 810 273** | **53 523 654** |

**Capital grants**

| | | |
|---|---|---|
| Intergrated National Electrification Program | 15 503 805 | 12 579 129 |
| KZN Cogta Funding | 1 583 369 | 5 398 270 |
| Municipal Infrastructure Grant | 18 831 924 | 20 759 786 |
| | **35 919 098** | **38 737 185** |
| | **94 729 371** | **92 260 839** |

**Equitable Share**

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

| | | |
|---|---|---|
| Current-year receipts | 54 074 000 | 49 450 000 |
| Conditions met - transferred to revenue | (54 074 000) | (49 450 000) |
| | - | - |

Conditions still to be met - remain liabilities (see note 15).

**Municipal Infrastructure Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | (209 319) | 5 081 734 |
| Current-year receipts | 17 570 000 | 18 541 000 |
| Conditions met - transferred to revenue | (18 831 924) | (20 459 096) |
| Other | - | (3 372 957) |
| | **(1 471 243)** | **(209 319)** |

Conditions still to be met - remain liabilities (see note 15).

In 2013/14 Financial Year, the municipality did not spend the transferred allocation for Municipal Infrastructure Grant and the municipality submitted the rollover application to National Treasury, the application was for R5, 081 million. Based on the assessment of the rollover application, National Treasury only approved portion of the rollover and the amount of R3, 3 million was withheld during 2014/15 Financial Year. The allocation for 2014/15 Financial Year received by the Municipality was 100% spent. The overspending on the Municipal Infrastructure Grant relates to the amount for Retention and the amount for Consultants incurred for previous year’s projects which was funded by Municipal Infrastructure Grant that was withheld by National Treasury. The project not completed during 2014/15 Financial Year has been disclosed on capital commitments.

The municipality spent 100% of the MIG allocation for 2015/16 financial year and the over-spending on the grant relates to the retentions withheld for the projects.

**Municipal Systems Improvement Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | (348 058) | (483 502) |
| Current-year receipts | 930 000 | 934 000 |
| Conditions met - transferred to revenue | (603 681) | (798 556) |

# Notes to the Financial Statements

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

## 20. Government grants and subsidies (continued)

| | | |
| --- | --- | --- |
| | **(21 739)** | **(348 058)** |

Conditions still to be met - remain liabilities (see note 15).

The municipality has overspent on the Municipal System Improvement grant.

**Finance Management Grant**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | (314 749) | (292 920) |
| Current-year receipts | 1 800 000 | 1 800 000 |
| Conditions met - transferred to revenue | (1 885 547) | (1 821 829) |
| | **(400 296)** | **(314 749)** |

Conditions still to be met - remain liabilities (see note 15).

The municipality has overspent on the Municipal Finance Management grant due to the implementation of the Pastel Evolution Financial System.

**Extended Public Works Programme Grant**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | 361 116 | (9 420) |
| Current-year receipts | 1 055 000 | 1 081 000 |
| Conditions met - transferred to revenue | (993 581) | (710 464) |
| | **422 535** | **361 116** |

Conditions still to be met - remain liabilities (see note 15).

The allocation for 2015/16 was received however the municipality couldn't spend 100% due to the delays on the appointment of EPWP workers.

**Arts and Culture Grant**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | 657 435 | 268 511 |
| Current-year receipts | 1 052 000 | 981 000 |
| Conditions met - transferred to revenue | (1 179 315) | (592 076) |
| | **530 120** | **657 435** |

Conditions still to be met - remain liabilities (see note 15)Arts and Culture grant is used by libraries for the operations. The library services failed to implement their plans 100% which lead to the unspent grant. This was casued by the resignation of the Librarian and the municipality also awarded a bid to the supplier for the supply of Computers for library services and the service provider failed to deliver the correct goods which led to the cancellation of the appointment and it was late to engage the other service provider. The rollover application will be submitted for the unspent balance to be used as per the initial business plan submitted to the province.

**Integrated National Electrification**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | (2 579 129) | 1 205 043 |
| Current-year receipts | 18 000 000 | 10 000 000 |
| Conditions met - transferred to revenue | (15 503 805) | (12 579 129) |
| Other | - | (1 205 043) |
| | **(82 934)** | **(2 579 129)** |

Conditions still to be met - remain liabilities (see note 15).

The grant was 100% spent during the 2015/16 Financial Year.

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

**20. Government grants and subsidies (continued)**

**SPORTS DEVELOPMENT GRANT**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 149 271 | - |
| Current-year receipts | - | 300 000 |
| Conditions met - transferred to revenue | (74 149) | (150 729) |
| | **75 122** | **149 271** |

Conditions still to be met - remain liabilities (see note 15).

The conditions were not 100% met in 2015/16 financial year and the rollover with business plan will be submitted to the department.

**KZN COGTA MASSIFICATION GRANT**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 1 601 730 | - |
| Current-year receipts | - | 7 000 000 |
| Conditions met - transferred to revenue | (1 583 369) | (5 398 270) |
| | **18 361** | **1 601 730** |

Conditions still to be met - remain liabilities (see note 15).

The electrification of Nkembeni Phase 1 (Mbizeni Area) has been completed (100%). Condition has been met.

**21. Provision for Bad Debts Adjustment**

| | | |
|---|---|---|
| Provision for Bad Debts Adjustment | 8 115 818 | 5 710 523 |

| | | |
|---|---|---|
| **Provision for Bad Debts Adjustment calculation** | | |
| Revenue from Exchanged Transactions | 73 612 000 | 67 901 477 |
| Revenue from non-Exchanged Transactions | 10 907 110 | 5 710 523 |
| **Balance at the end of the year** | **84 519 110** | **73 612 000** |

This adjustment is due to align the previous years provision for bad debts with the one for current year under review

**22. Fines**

| | | |
|---|---|---|
| Traffic Fines | 3 570 515 | 3 594 500 |
| Prepaid Meter Fines | 17 912 | 45 474 |
| Lost Books & Fines | | |
| | **3 588 441** | **3 639 974** |

| | | |
|---|---|---|
| Paid Fines | 579 947 | 400 436 |
| Fines not Paid | 2 990 568 | 3 194 064 |
| | **3 570 515** | **3 594 500** |

The Traffic fines not collected as at 30 June 2016 was R3 570 515 as per the schedule of fines issued. Based on the pass experience the fines were impaired and only 16% of the debt amount were recognised as debt.

# Notes to the Financial Statements

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

### 23. Interest received

| | | |
|---|---|---|
| **Interest revenue** | | |
| Other loans | - | - |
| Interest on Debit Balance | 120 165 | 133 754 |
| Investment Interest | 178 115 | 142 348 |
| | **298 280** | **276 102** |

Split sources of interest received for current and prior year.

### 24. Other income

| | | |
|---|---|---|
| Burial Fees | 23 035 | 20 189 |
| Tender Monies | 75 938 | 57 276 |
| Mayoral Marathon | - | 5 412 |
| Rates Clearance Certificate | 8 440 | 9 600 |
| Sundry Income | 75 568 | 46 268 |
| Insurance Claim received | 891 039 | 212 547 |
| Reconnection Fees | 4 526 | 614 |
| Building and Structures fees | 9 348 | 84 540 |
| Hall Hire | 38 086 | 38 950 |
| School Patrolling Subsidy | (30 921) | 14 988 |
| LGSETA Subsidy | 76 709 | 28 231 |
| Fax and Copies | 257 | - |
| Connection fees/ Prepaid meter bases | 13 375 | - |
| Prepaid Meter Installation | 30 351 | - |
| Prepaid Meter Box | 52 629 | 24 342 |
| | **1 268 380** | **542 957** |

The amounts disclosed above for other income are in respect of services rendered which are billed to or paid for by the users as the services are required according to approved tariffs.

### 25. Service charges

| | | |
|---|---|---|
| Service charges - Electricity Meters | 8 272 664 | 8 913 020 |
| Sale of Prepaid electricity | 5 945 452 | 5 254 655 |
| Refuse removal | 5 588 571 | 5 212 445 |
| | **19 806 687** | **19 380 120** |

The amounts disclosed above for revenue from service charges are in respect of services rendered which are billed to the consumers on a monthly basis according to tariffs approved by Council of eDumbe Local Municipality.

### 26. Audit Fees

| | | |
|---|---|---|
| External Audit Fees - Auditor-General | 1 366 922 | 990 265 |

### 27. Bulk purchases

| | | |
|---|---|---|
| Electricity | 16 679 087 | 15 245 219 |

Bulk purchases are in respect of electricity bill paid to ESKOM.

# Notes to the Financial Statements

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

## 28. Contracted services

| | | |
|---|---|---|
| Internal Audit Unit | 954 034 | 1 250 735 |
| Security Services | 2 593 243 | 1 571 414 |
| | **3 547 277** | **2 822 149** |

## 29. Employee related costs

| | | |
|---|---|---|
| Basic | 26 056 528 | 21 315 818 |
| Bonus | 2 322 140 | 1 946 008 |
| Medical aid - company contributions | 1 141 789 | 925 013 |
| UIF | 205 266 | 173 664 |
| Defined contribution plans | 4 097 002 | 3 406 755 |
| Travel, motor car, accommodation, subsistence and other allowances | 2 065 089 | 1 875 052 |
| Overtime payments | 244 120 | 180 246 |
| Long-service awards | 26 241 | 17 105 |
| Housing benefits and allowances | 450 417 | 440 429 |
| Cellphone Allowances | 402 939 | 351 200 |
| | **37 011 531** | **30 631 290** |

**Remuneration of municipal manager**

| | | |
|---|---|---|
| Annual Remuneration | 639 709 | 587 264 |
| Car Allowance | 225 774 | 203 530 |
| Performance Bonuses | 83 178 | 107 860 |
| Contributions to UIF, Medical and Pension Funds | 54 276 | 53 143 |
| Other | 121 755 | 140 210 |
| Cellphone Allowance | 28 800 | 26 400 |
| | **1 153 492** | **1 118 407** |

**Remuneration of chief finance officer**

| | | |
|---|---|---|
| Annual Remuneration | 524 721 | 251 464 |
| Car Allowance | 129 162 | 49 881 |
| Performance Bonuses | 56 508 | 98 226 |
| Contributions to UIF, Medical and Pension Funds | 155 165 | 73 417 |
| Cellphone Allowance | 22 800 | 28 994 |
| Other | - | 179 914 |
| Other | - | 72 514 |
| | **888 356** | **754 410** |

**Remuneration of Director of Infrastructure Services**

| | | |
|---|---|---|
| Annual Remuneration | 103 719 | 177 470 |
| Car Allowance | 30 000 | 55 664 |
| Performance Bonuses | - | - |
| Contributions to UIF, Medical and Pension Funds | 15 000 | 24 229 |
| Other | 26 687 | 22 265 |
| Other | 25 000 | 19 817 |
| | **200 406** | **299 445** |

Director Technical resigned from his position on November 2014 and the municipality appointed Municipal Manager to be an Acting Director Techincal and no acting allowance was paid. The post was only filled on 01 April 2016.

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

### 29. Employee related costs (continued)

**Remuneration of Directors Corporate Services**

| | | |
|---|---|---|
| Annual Remuneration | 445 272 | 449 078 |
| Car Allowance | 137 183 | 148 022 |
| Performance Bonuses | 66 053 | 57 617 |
| Contributions to UIF, Medical and Pension Funds | 37 075 | 38 969 |
| Other | 54 873 | 59 209 |
| Other | 16 802 | 23 159 |
| Cellphone Allowance | 20 900 | 20 900 |
| | **778 158** | **796 954** |

**Remmuneration of Director Community Services**

| | | |
|---|---|---|
| Annual Remuneration | 449 818 | 414 544 |
| Car Allowance | 169 602 | 167 753 |
| Performance Bonuses | 35 095 | 39 097 |
| Contributions to UIF, Medical and Pension Funds | 9 438 | 8 973 |
| Other | 74 824 | 74 009 |
| Cellphone Allowance | 50 773 | 48 873 |
| | **789 550** | **753 249** |

**Remmuneration of director Planning and development**

| | | |
|---|---|---|
| Annual Remuneration | 200 958 | 345 948 |
| Car Allowance | 50 000 | 135 388 |
| Performance Bonuses | - | 45 956 |
| Contributions to UIF, Medical and Pension Funds | 744 | 7 974 |
| Other | 17 971 | 62 053 |
| Other | 41 667 | 35 942 |
| Other | 43 734 | 86 448 |
| | **355 074** | **719 709** |

Director Planning resigned from the Municipality on 30 April 2015 and Mr CT Buthelezi was appointed as Acting Director Planning. Thereafter the post was filled on 01 February 2016.

### 30. Finance costs

| | | |
|---|---|---|
| Finance leases | 590 302 | - |
| | - | - |
| Loan | - | 86 417 |
| Late payment of tax | - | - |
| Other interest paid | 2 863 979 | 979 672 |
| | **3 454 281** | **1 066 089** |

The total finance cost is calculated using the effective interest rate, on Financial Instruments not held at fair value through surplus or deficit .

# Notes to the Financial Statements

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

## 31. General expenses

| | | |
|---|---|---|
| Advertising | 333 373 | 257 524 |
| Aid Awarness | 155 158 | 79 730 |
| Cleaning | 37 616 | 41 822 |
| Communications | 500 292 | 285 212 |
| Community development and training | 305 958 | 228 368 |
| Computer expenses | 35 747 | 51 132 |
| Consulting and professional fees | 3 710 889 | 3 200 073 |
| Settlement contingencies | 3 160 805 | 2 591 948 |
| Entertainment | 74 130 | 81 854 |
| Fuel and oil | 1 132 992 | 831 933 |
| IT expenses | 175 400 | 6 184 |
| Indigent Burial | 85 890 | 55 190 |
| Insurance | 905 553 | 666 284 |
| Zoning of Land | 1 421 733 | 1 080 385 |
| Land fill site provision exp | 68 434 | 65 150 |
| Leave | 592 344 | 535 672 |
| Legal Fees | 2 532 418 | 676 749 |
| Local Economic Developments | 504 113 | 196 615 |
| SPLUMA Implementation | 76 313 | - |
| Revenue Enhancement Strategy | 107 100 | - |
| Operating expenses for Leases | 783 422 | 1 042 178 |
| Other expenses | 1 720 156 | 1 035 544 |
| Strategic Planning | 143 218 | - |
| Poverty Alleviation | 854 846 | 256 093 |
| Printing and stationery | 246 409 | 186 843 |
| Promotions | - | 4 765 |
| Protective clothing | 330 505 | 318 587 |
| Bank Charges | 45 616 | 48 522 |
| Road Transport Quality System | 26 275 | 32 535 |
| Supplementary Valuation Roll | 309 030 | - |
| HR Engineering and Staff Establishment | 441 509 | - |
| Social Cohesion | 298 414 | 255 747 |
| Youth and Sport Development | 1 707 084 | 1 293 628 |
| Staff welfare | 27 194 | 65 104 |
| Consumables | 118 400 | 72 846 |
| Subscriptions and membership fees | 522 465 | 1 011 600 |
| Title deed search fees | 142 976 | 144 389 |
| Telephone and fax | 450 759 | 906 987 |
| Tourism development | 625 805 | 246 550 |
| Training | 838 921 | 57 731 |
| Accommodation and Travelling Expenses | 1 531 042 | 1 523 509 |
| Ward Committee Expenses | 14 768 | 103 988 |
| Water | 19 833 | 19 170 |
| | **27 114 905** | **19 558 141** |

## 32. Operational Grant expenses

| | | |
|---|---|---|
| **Grants paid to ME's** | | |
| Municipal Systems Improvement Grant | 650 625 | 720 111 |
| Arts and Culture Subsidy | 957 142 | 642 019 |
| MIG Operating Expenses | 944 631 | 2 050 254 |
| Municipal Finance Managament Grant | 1 793 246 | 1 700 340 |
| EPWP Grant | 997 154 | 696 008 |
| Sport Development Subsidy | 74 259 | 179 529 |
| | **5 417 057** | **5 988 261** |

# Notes to the Financial Statements

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

### 33. Operating lease

At the reporting date the municipality has outstanding commitments under operating leases which fall due as follows:

| | | |
|---|---|---|
| **Operating lease as a lessee** | | |
| Within one year | 751 696 | 1 945 244 |
| In second to fifth year inclusive | 382 320 | 339 391 |
| | **1 134 016** | **2 284 635** |

Operating lease payments represent rentals payable by the municipality for the vehicle hire. Leases are normally negotiated for an average term of three years. The lease agreement for vehicles are on the month-to-month with RIS Vehicle Hire for the duration of 2015/16 Financial Year. The municipality entered into a new lease for the photocopiers with Biztec.

| | | |
|---|---|---|
| **Operating Leases - as lessor** | | |
| **Heading** | | |
| Within one year | 1 169 441 | 1 110 783 |
| In the second to fifth year inclusive | 5 451 607 | 6 208 105 |
| After five years | 21 504 165 | 13 841 438 |
| | **28 125 213** | **21 160 326** |

Operating Leases consists of the following:

Certain of the municipality's property is leased to Mondi is held to generate rental income. Rental of property is expected to generate rental yields of R 828.08 per hectare (Ha) with an escalation avarage linked to CPI plus PPI per annum on an ongoing basis. Lease agreements are non-cancellable and have terms from 3 to 6 years and the lease signed by Mondi was for 20 years. CPI used for calculation is as per trading economic up to 2020 thereafter a 0.1% projection was done.

### 34. Remuneration of councillors

| | | |
|---|---|---|
| Hon. Mayor | 824 318 | 853 797 |
| Hon. Deputy Mayor | 374 506 | 276 636 |
| Executive Committee Members | 368 068 | 327 537 |
| Speaker | 660 886 | 601 347 |
| Councillors | 2 569 002 | 2 250 817 |
| Councillors’ pension contribution | 45 561 | 31 398 |
| MPAC Chairperson | 374 503 | 310 304 |
| | **5 216 844** | **4 651 836** |

The Mayor is full time and is provided with an office and secretarial support at the cost of the Council. The Mayor, Deputy Mayor and Speaker has use of a Council owned vehicle for official duties. The Mayor has two full time bodyguard and Deputy Mayor and Speaker have full time drivers each. The speaker of the Council is full time and is also provided with an office and secretarial support.

The municipality have also provided MPAC chairperson with an office.

# Notes to the Financial Statements

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

### 35. Cash generated from operations

| | 2016 | 2015 |
|---|---|---|
| Surplus | 17 057 415 | 23 810 550 |
| **Adjustments for:** | | |
| Depreciation and amortisation | 10 982 285 | 7 796 973 |
| Gain (loss) on sale of assets and liabilities | 177 279 | (45 919) |
| Impairment deficit | 2 062 153 | - |
| Debt impairment | 8 115 818 | 5 710 523 |
| Movements in retirement benefit assets and liabilities | 1 802 000 | 1 205 000 |
| Movements in provisions | (2 523 514) | 2 657 098 |
| Movement in tax receivable and payable | (841 389) | 373 215 |
| **Changes in working capital:** | | |
| Inventories | 152 085 | 124 418 |
| Consumer debtors | (4 627 110) | (7 584 826) |
| Other receivables from non-exchange transactions | (8 490 625) | (5 099 535) |
| Payables from exchange transactions | 14 438 556 | 7 816 127 |
| Unspent conditional grants and receipts | (1 723 414) | (2 999 893) |
| Consumer deposits | 2 394 | 2 042 |
| | **36 583 933** | **33 765 773** |

### 36. Prior period errors

There are some Property, Plant and Equipment which has been identified which was not previously reported by the institution which includes the Leased Assets which was previousely disclosed as operating leases and the other asset which was incorrectly disposed off in 2014/15 financial year (workshop). The correction of error have also affected the Depreciation reported for the year 2014/15 Financial Year. The correction of error has been done and the disclosure has been done restrospectively.

The municipality stopped utilising the old land fill site and the new site has been brought into use. The new site is situated near coal siding. The Provision for Rehabilitation of Landfill Site has been recalculated by Ducharme Consulting and the figures has been restated from previous year.

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

| | 2016 | 2015 |
|---|---|---|
| **Statement of financial position** | | |
| Property, plant and equipment | - | 7 160 214 |
| Cash and Cash Equivalent | - | (9 157) |
| Provision for land Fill Site | - | 305 492 |
| Finance Lease Obligation | - | (841 920) |
| Finance Lease Assets | - | 841 920 |
| Finance Lease Assets | - | 233 035 |
| Accummulated depreciation | - | (3 403 514) |
| | | |
| **Statement of Financial Performance** | | |
| Depreciation expense | - | 115 631 |
| Loss on Disposal of Assets/ Liabilities | - | (2 035 778) |
| Interest Received - Investment | - | (9 157) |
| Operating lease | - | (233 035) |
| Impairment Losses | - | (1 531 061) |

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

### 36. Prior period errors (continued)

The above journals were processed direct to the accummulated surplus to correct the individual accounts

### 37. Commitments

The committed expenditure relates to work-in-progress and future projects which will be constructed in various wards and will be financed by Municipal Infrastructure Grant and Intergrated National Electrification Program and internally generated etc.

| | 2016 | 2015 |
|---|---|---|
| **Commitments in respect of capital expenditure** | | |
| Commitments - Contracted | 180 337 | 3 123 914 |
| Commitments - Not Contracted | 16 359 950 | 34 691 500 |
| | **16 540 287** | **37 815 414** |
| | | |
| **This expenditure will be financed from:** | | |
| Government Grants | 16 540 287 | 37 815 414 |

### 38. Unauthorised expenditure

| | 2016 | 2015 |
|---|---|---|
| Opening Balance | 13 873 202 | 83 114 032 |
| Unauthorised Expenditure - Current Year | 22 298 364 | 13 873 202 |
| Expenditure Authorised by Council/ Provided for in the Budget | - | (83 114 032) |
| | **36 171 566** | **13 873 202** |

The unauthorised expenditure relates to expenditure incurred that exceeded the budget. The municipality incurred unauthorised expenditure for 2015/16 financial year on Non-Cash items (Depreciation, Bad debts provision, Traffic fines provision, Actuaries, Loss on disposal of assets) and other general expenses. The item to Council will be prepared for Council to consider providing for the expenditure on the budget during Adjustment Budget and also doing virement as they were savings from other votes.

### 39. Irregular expenditure

| | 2016 | 2015 |
|---|---|---|
| Opening balance | 42 154 895 | 8 747 361 |
| Add: Irregular Expenditure - current year | 16 914 378 | 33 407 534 |
| | **59 069 273** | **42 154 895** |

**Analysis of expenditure awaiting condonation per age classification**

| | 2016 | 2015 |
|---|---|---|
| Current year | 16 914 378 | 33 407 534 |
| Prior years | 42 154 895 | 8 747 361 |
| | **59 069 273** | **42 154 895** |

# Notes to the Financial Statements

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

### 39. Irregular expenditure (continued)

**Details of irregular expenditure – current year**

| | |
|---|---|
| | - |

Irregular expenditure incurred for the current year relates to the amounts paid to Security company (Ingonyama Security - R1 542 480). The expenditure was regarded as irregular previouse years and the contract signed was for 3 years. The amount was also disclosed in the previouse financial years, 2013/2014 and 2014/2015 irrespectively since the appointments was done incontraventions with SCM regulations/ processes.

An amount of R14 261 653 was incurred by the municipality for the Electrification Projects. The appointment was made to BTMN Engineers on a Turn-Key basis however the appointment was not inline with SCM Regulation because the Tender process was not followed they were appointed on risk. The expenditure amounting to R 1 498 436 was irregular due to irregularities identified on appointments made to the services providers which include failure to obtain three quotations, service provider being in the service of the state, failure to implement the local contant requirement and other SCM processes.

An amount of R8 747 361 has been written off by Council as irrecovarable in terms of section 32 of the MFMA and awaiting condonation by National Treasury as per section 170 of the MFMA. The other balance of irregular expedniture is still to be investigated by Council committee which will then conclude whether the amount is recovereable or irrecoverable and whether it will be recovered or to be written off as well as determining if there are any criminal or disciplinary steps will be taken.

### 40. Fruitless and wasteful expenditure

| | 2016 | 2015 |
|---|---|---|
| Opening balance | 1 810 876 | 1 026 720 |
| SARS Interest and Penalties | 1 031 335 | 784 156 |
| Settlement Interest | 1 186 079 | - |
| Eskom late payments | 278 033 | - |
| | **4 306 323** | **1 810 876** |

An amount of R 4 306 323 will be referred to Council for investigation then the investigation report will be tabled to Council to approve the amounts to be recovered from responsible peopleand certified those whom the Council feel is irrecovarable in terms of section 32 of the MFMA the letter will be the sent to National Treasury as per section 170 of the MFMA for condonation.

## Notes to the Financial Statements

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

### 41. 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.

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviations from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by the Council. The expenses incurred as listed hereunder have been condoned.

| | | |
|---|---|---|
| TSS Engineering | 182 158 | 192 796 |
| Roga Motors | 1 060 416 | 821 092 |
| Bell Equipment | 252 165 | 181 251 |
| Advertising | 456 512 | 355 586 |
| Accommodation & Other | 341 638 | 771 293 |
| IMFO | 5 000 | 27 209 |
| Anesco Toyota | 59 838 | - |
| Mthembu and Sons Landhire | - | 3 670 494 |
| Sage VIP Payroll | - | 88 811 |
| South African Post Office | 15 675 | 29 674 |
| Bonamanzi Caravan Park | - | 59 000 |
| Striving Mind Trading 1292 | - | 35 000 |
| Eskom | - | 37 080 |
| Syco Machinery | - | 36 811 |
| Formal Written Quotation Awarded | - | 716 110 |
| PMB TV Video Repairs Centre | - | 35 000 |
| General Expenses | - | 47 194 |
| DNS Security | - | 160 740 |
| Sbahle Fire Services | 75 383 | - |
| OTSG Solution | 86 400 | - |
| Lisulezazi Trading Enterprise | 200 000 | - |
| JL Multisales and services | 53 883 | - |
| | - | - |
| **Total Deviations for the Year** | **2 789 068** | **7 265 141** |

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the Council and includes a note to the Annual Financial Statements.

The following items were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1) (a) to (d) as stated above.

**Tss Engineering**

| | | |
|---|---|---|
| It was an emergency due to the break down of electrical transformer | 182 158 | 192 796 |

| | | |
|---|---|---|
| Roga Motors | 1 060 416 | 821 092 |

The municipality engaged with the garage to provide the petrol as and when required. Only garage agreed to help the municipality with Petrol.

| | | |
|---|---|---|
| Bell Equipment | 252 165 | 181 251 |

The municipality bought Bell Equipment in 2011 and the municipality is currecntly utilising the services for Bell Equipment for servicing of the equipment.

| | | |
|---|---|---|
| Advertising | 444 795 | 355 586 |
| DNS Security | - | 160 740 |
| | **444 795** | **516 326** |

## Notes to the Financial Statements

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

### 41. Deviation from supply chain management regulations (continued)

The municipality is currently using Isolezwe as the advertising newspaper due to the fact that they advertise everyday and it is frequently used by the community members around eDumbe and other areas. The other expense on advertising was on the advert for posts for section 57 employees which require municipalities to advertise on National newspaper and Sunday Times is therefore used since it is normally used by most municipalities and Government departments. The second transaction was for DNS Security, the municipality followed the process of advertising however only one service provider who submitted the quote there for the Deviation for minor has been approved by the Accounting Officer in terms of SCM Regulation.

| | | |
|---|---|---|
| Accommodation and Other expenses | 341 638 | 771 293 |

The municipality could not be able to obtain 3 qoutation on the accomodation expenses due to the venues (location) of the meetings attended by the municipal delegates as well as the condition of the hotels. The municipality also couldn't able to obtain three quotation for the advertisement on local nwespapers. The municipality is using Vryheid Herald and Isolezwe for advertising. The other expenses are minor breaches where three quotations were not obtained.

| | | |
|---|---|---|
| Anesco Toyota | 59 838 | - |

The expenditure was incurred for the service of toyota vehicles which was sent straight to Anesco as we only have one toyota garage in town. The other expenditure was incurred when strip and quote repairs was done on machines which are services at toyota. Lastly the purchase of fuel was also done when Roga Motors was having a problem.

| | | |
|---|---|---|
| IMFO | 5 000 | 27 209 |

The IMFO conference is only provided by sole supplier which is IMFO.

| | | |
|---|---|---|
| Lisulezazi Trading Enterprise | 200 000 | - |

The advert for the newsletter and other communication activities was issued and only two quotations were received by the municipality. Due to the fact the process was fully followed by the municipality but three quotes were not obtained as per Municipal SCM Regulations, the municipality continued with the appointment and implemented Regulation 36 of the Municipal SCM Regulations which allows deviation for minor breach.

| | | |
|---|---|---|
| Mthembu and Sons Land Hire | - | 3 670 494 |

The contractor was appointed by the municipality after the court settlement. It was impractical for the municipality to follow the process due to the pending case which was involving the two parties.

| | | |
|---|---|---|
| SAGE VIP Payroll | - | 88 811 |

The company provides the municipality with Payroll system. The expenditure is for short courses, support, annual license for the system and payslip papers.

| | | |
|---|---|---|
| South African Post Office | 15 675 | 29 674 |

Sole suppler for postal stamp used by the municipality to post letter to consumers and other letters to other organs of state.

| | | |
|---|---|---|
| Syco Machinery | - | 36 811 |

Traffic machines which needs calibration, one company does calibration for KZN municipalities.

| | | |
|---|---|---|
| Striving Mind Trading 1292 | - | 35 000 |

Media coverage for the Mayoral Marathon from different newspapers and radio stations organised by the service provider.

| | | |
|---|---|---|
| Bonamanzi Caravan Park | - | 59 000 |

# Notes to the Financial Statements

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

## 41. Deviation from supply chain management regulations (continued)

The payment was for a Cheque issued for the prices of Jockies during Horse ridding event in September 2014.

| | | |
|---|---|---|
| Eskom | - | 37 080 |

They were the only service provider responded to the quotation.

| | | |
|---|---|---|
| | - | - |
| OTSG Solution | 86 400 | - |

The advert for the maintenance of municipal website was issued and only two quotations were received by the municipality. Due to the fact the process was fully followed by the municipality but three quotes were not obtained as per Municipal SCM Regulations, the municipality continued with the appointment and implemented Regulation 36 of the Municipal SCM Regulations which allows deviation for minor breach

| | | |
|---|---|---|
| General Expenditure | - | 47 194 |

General expenditure was incurred where only 1 quotation was received instead of three. The expenditure include the addition on Insurance contract for R11 758, Department of Transport payment R19 592, Service for Mayoral Toyota vehicle for R8 603, Annual Conference for R3000 and Burial assistance for R4 240

| | | |
|---|---|---|
| PMB TV Video Repairs Centre | - | 35 000 |

Due to emergency for buglary in municipal bulding, the municipality had to enforce the security controls.

Formal written Price quotation was obtained by the municipality however only 1 service provider who responded and the municipality opted to continue with the process and the deviation for minor breach because only 1 quote received instead of three even though the process was correctly followed. The amount was for Total Client Services R138 508, Zandi Power Services R198 381, IsulamiTrading R40 000, Zanecebo Trading R41 822, Dr Mlothwa X-Ray R149 400 and Ntshidi and Associates R148 000 in 2014/15 and 2015/16 amount was for Sbahle Fire Services R75 383 and JL Multisales and services R53 883.

| | | |
|---|---|---|
| Formal written Price Awards | 129 266 | 716 110 |

## 42. Distribution losses

| | | |
|---|---|---|
| **Electricity** | | |
| Number of consumers(Residential and Commercial) | 2 236 | 2 132 |
| Units purchased (kwh) | 17 862 555 | 18 860 540 |
| Units sold (Total) | 10 885 067 | 12 089 620 |
| | 6 977 488 | 6 770 921 |
| Units own use (Municipal Building) | 202 353 | 2 067 635 |
| Units lost in distribution | 6 775 135 | 4 703 285 |
| Percentage lost distribution | 38 | 25.00 % |
| Total cost (Expense) | 9 098 454 | 8 569 175 |
| Cost of units purchased | 0.5 | - |
| | **3 422 121** | **2 116 782** |

## Notes to the Financial Statements

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

### 43. Related parties

**Related party balances**

Cllr Ronnie Gevers has a company and the municipality has traded with his company during 2015/2016 financial year. The name of the company is Forest Pro.

They were no Councillors in arrears on their accounts as at 30 June 2016.

| **Related Party - Trade Payables** | | |
|---|---|---|
| Amount included on general expenses relates to related party for ZDM Shared Services for planning departments and other departments with the Zululand District Municipality. The other amount included on the General expenses is the amount paid to Zululand District Municipality for water accounts. | 26 241 | 23 714 |
| Isulami Trading and Projects has traded with the Municipality during the year under review and the spouse of the Director is in the service of the state employed by eDumbe Local Municipality (Local Government) | 1 205 634 | 142 300 |
| The Municipality has traded with Total Client Services for the contravention Management System and the spouse of the Director of the company is in the service of the state being employed by EC Liquoir Board | - | 138 565 |
| Sizoshubeka Trading Services CC has traded with the Municipality during the year under review and the relative of the Director is in the service of the state employed by eDumbe Local Municipality (Local Government) | 37 500 | - |
| Mbalana Catering and Suppliers has traded with the Municipality during the year under review and the spouse of the Director of the company is in the service of the state employed by eDumbe Local Municipality (Local Government) | 92 990 | - |

Details of remuneration of Councillors and key management are disclosed in note 30 and in note 35.

No benefits were paid to spouses and dependents of key management or Councillors.

**Remmuneration of Councillors and Key management**

| **Transactions:** | |
|---|---|
| Cllr Ronnie Gevers has a company and the municipality has traded with his company during 2015/2016 financial year . The name of the company is Forest Pro. | 35955.63 |

### 44. Contingencies

Litigation is in the process against the municipality relating to a dispute with a competitor who alleges that the municipality has infringed patents and is seeking damages -. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the case should be resolved within the next two years.

# Notes to the Financial Statements

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

### 44. Contingencies (continued)

**Contingent liabilities**

| | 2016 | 2015 |
| --- | --- | --- |
| | - | - |
| **Claim for damages - AMT Putini**<br>Mr AMT Putini instituted proceedings in the bargaining council challenging his suspension by Council in 2010. The award was for the municipality to pay the claimant an amount of R480 305,46 excluding the legal fees. The council have challanged the award and currently the Council's attorneys are dealing with the matter. Should the council be unsuccessful in defending the claim, there is a posibility that the claim will be settled at R480 305,46 plus an estimated amount of attorneys of the Council of R150 000 and the claimant's attorneys fees estimated at R150 000. Therefore total amount of R780 305,46 may be payable. | 780 305 | 780 305 |
| **Guarantee with Eskom**<br>The municipality have a call account which have a portion of guarantee withheld by the bank for the Eskom licence guarantee. The amount for the guarantee is R530 000 | 530 000 | 530 000 |
| **Mthembu and sons**<br>The municipality was sued by Mthembu and Sons and the matter has been resolved and settled. The municipality have paid the amount as per court settlement agreement. | - | 3 150 000 |
| **MSN Investments**<br>The Municipality was being sued by MSN Investment claiming that he was appointed by the then Acting Municipal Manager verbally to continue working for the council for the finalisation of the Annual Financial Statements. MSN Investment is claiming R78 906 for work performed. The legal costs estimated for the case will be R50 000. | 123 906 | 123 906 |
| **Itlathi Transport CC**<br>The municipality is being sued by Ihlathi Transport CC for the service rendered to the municipality. Ihlathi transport is demanding outstanding payment R1,9 million from the municipality for services rendererd. Ihlathi Transport CC has not issued summons but the matter has been refered to the court. The estimated legal fees are R100 000. | 2 000 000 | 2 000 000 |
| **PMPZ Construction**<br>The municipality has been threatened by PMPZ Construction to institute legal proceedings for unpaid balance arising from a contract awarded to them. The company was doing construction services for MIG projects and the contract was cancelled by the Municipality. The total amount the municipality will be liable should they continue with the matter and wins it is R457 860. The contingent liability includes legal costs for plantiff of R100 000 and the legal cost for the municipality of R 50 000. | 607 860 | 607 860 |
| **Swatilelihle**<br>Swatilelihle was appointed by the municipality for the construction of Jourbet Street in PaulPietersburg Town. The company executed the work and was paid for the work done. They are now claiming that they didnot make any profit from the contract due to some instructions on site by the municipality and other site issues and they are suing the municipality for an amount of R3,8 million. Swatilelihle is suing the municipality for an amount of R3 800 448 for disputed unpaid invoices arising from a contract. The contingent liability includes legal costs for plantiff of R100 000 and the legal cost for the municipality of R150 000. | 4 050 448 | 4 050 448 |

**Lime Distributors**

# Notes to the Financial Statements

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

### 44. Contingencies (continued)

| | | |
|---|---|---|
| Lime Distributors is suing the municipality for unpaid invoices for goods delivered in terms of the Cession Agreement with Swatilelihle. Lime Distributors is suing the municipality for an amount of R223 258. The contigent liability includes legal costs for plantiff of R100 000 and the legal cost for the municipality of R100 000. | 423 258 | 423 258 |

**Natal Richards Bay Hire CC**

| | | |
|---|---|---|
| Natal Richard Bay Hire CC is suing the municipality for R411 279 together with interest for failing to pay monies due to it in terms of the contract. The contingent liability includes legal costs for plantiff of R200 000 and the legal cost for the municipality of R200 000. | 811 279 | 811 279 |

### 45. Going concern

We draw attention to the fact that at 30 June 2016, the municipality had accumulated deficits of 245 596 643 and that the municipality's total current liabilities exceed its current assets by 25 202 898. The reason for the current liabilities to exceed the current assets is the collection rate of the municipality which is not favourable at all. It's makes the municipality fails to pay its debts as they become due which increase the current liabilities and the outstanding debtors end up being impaired.

During the current year the municipality managed to settle the DBSA loan which has been overdue for quite sometime, however the debt collection rate was very low and conditional grants could not be backed up by cash in the bank. The municipality was also striked by the drought which affect the consumption of electricity hugely and the the anticipated revenue on electricity was affected. The liquidity ratio for the municipality is below one which means the municipality is not able to pay its creditors as they fall due the evidence of that is the increase on the trade payables which an amount of R33 million of payables as at 30 June 2016, however, because at year end, the municipality is in a net asset position, the municipality is deemed to be a going concern. The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. This is further mitigated by the fact that National Treasury will still be funding municipality activities, with no evidence of intention to withdraw financial support.

The ability of the municipality to continue as a going concern is dependent on a number of factors which include the assets and liability of the municipality. The management has also prepared an assessment of going concern which is an annexure to the Annual Financial Statement of 2015/16 Financial Year.

### 46. Risk management

The municipality’s finance function monitors and manages the financial risks relating to the operations of the municipality. These risks include credit risk, liquidity risk, market risk relating interest rate risk.

**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.

Except as detailed below, the carrying amount of financial assets recorded in the Annual Financial Statements, which is net of impairment losses, represents the municipality’s maximum exposure to credit risk without taking account of the value of any collateral obtained:

The maximum credit risk exposure in respect of the relevant financial instruments is as follows:

| Financial instrument | 2016 | 2015 |
|---|---|---|
| Cash and Cash Equivalent | 719 257 | 1 124 921 |
| Trade and other receivables | 2 796 095 | 3 511 784 |
| VAT Receivables | 505 444 | - |
| Other | - | - |
| | - | - |
| | 4 020 796 | 4 636 705 |

# Notes to the Financial Statements

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

## 46. Risk management (continued)

### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an on-going review of future commitments and credit facilities. Unspent Grants are cashed back.Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities into amounts due within the 12 months after financial year end. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | | |
|---|---|---|
| Trade and other payables | 35 840 435 | 21 933 701 |
| VAT Payable | - | 335 945 |
| **Maximum liquidity exposure** | **35 840 435** | **22 269 646** |

### Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

At year end, financial instruments exposed to interest rate risk were as follows:

| | | |
|---|---|---|
| Cash and cash equivalents | 719 257 | 1 115 766 |
| | - | - |
| **Maximum interest exposure** | **719 257** | **1 115 766** |

## 47. Budget versus Actual Statement

The comparison of the Municipality's actual financial performance with that budgeted is set out in the face with reason for variences and corrective measures.

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

### Contributions to organised local government

| | | |
|---|---|---|
| Opening balance | 1 624 376 | 617 032 |
| Current year subscription / fee | 505 578 | 1 007 344 |
| | **2 129 954** | **1 624 376** |

The amount is included accruals raised for 2015/2016 financial year for the membership to SALGA for the municipality.

### Audit fees

| | | |
|---|---|---|
| Opening balance | - | 45 089 |
| Current year subscription / fee | 1 366 922 | 990 265 |
| Amount paid - current year | (1 353 790) | (990 265) |
| Amount paid - previous years | - | (45 089) |
| | **13 132** | **-** |

The municipality paid the previous year balance as well as the current year invoices in full during the year.

# Notes to the Financial Statements

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

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

**PAYE and UIF**

| | | |
|---|---|---|
| Opening balance | 1 338 448 | 1 176 693 |
| Current year subscription / fee | 6 906 722 | 6 115 416 |
| Amount paid - current year | (4 502 108) | (4 773 968) |
| Amount paid - previous years | (1 338 448) | (1 179 693) |
| | **2 404 614** | **1 338 448** |

The balance includes PAYE,SDL and UIF deducted from February 2016, April 2016, May 2016 and June 2016 payroll. These amounts were paid during July 2016. The amount of R 2 404 614 was not paid as at 30 June 2016 and it was part of the accrual raised in 2015/2016.

**Pension and Medical Aid Deductions**

| | | |
|---|---|---|
| Opening balance | 430 726 | 977 096 |
| Current year subscription / fee | 8 339 978 | 4 188 595 |
| Amount paid - current year | (6 040 513) | (3 745 744) |
| Amount paid - previous years | (430 726) | (989 221) |
| | **2 299 465** | **430 726** |

The unpaid balance represents pension and medical aid contributions deducted from employees as at 30 June 2016 payroll as well as Council's contributions to pension and medical funds.

**Councillors' arrear consumer accounts**

They were no Councillors in arrears on their accounts as at 30 June 2016:

# Notes to the Financial Statements

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

## 49. Finance lease obligation

| Finance Lease liability - 2016 | Future minimum lease Payments | Future finance charges | Present value of future minimum lease Payments |
|---|---|---|---|
| - within one year | 2 791 819 | (560 506) | 2 231 313 |
| - in second to fifth year inclusive | 4 919 103 | (629 959) | 4 289 144 |
| Total future minimum lease payments | 7 710 922 | (1 253 465) | 6 457 457 |
| Less: Amount due for settlement within 12 months (current portion) | (2 791 819) | 560 506 | (2 231 313) |
| **Non-current future minimum lease payments** | **4 919 103** | **(629 959)** | **2 231 313** |

| Finance Lease liability - 2015 | Future minimum lease Payments | Future finance charges | Present value of future minimum lease Payments |
|---|---|---|---|
| - within one year | 295 580 | (62 544) | 233 036 |
| - in second to fifth year inclusive | 438 737 | (62 888) | 375 849 |
| Total future minimum lease payments | 734 317 | (125 432) | 608 885 |
| Less: Amount due for settlement within 12 months (current portion) | (295 580) | 62 544 | (233 036) |
| **Non-current future minimum lease payments** | **438 737** | **62 888** | **375 849** |

| **Financial Position disclosure** | | |
|---|---|---|
| Current liabilities | 2 231 313 | 233 036 |
| Non Current liabilities | 4 226 144 | 375 849 |
| | **6 457 457** | **608 885** |

'It is municipality policy to lease certain motor vehicles and equipment under finance leases. The average lease term is 3 years The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. The municipality 'is currently leasing the vehicles with Afrirent and the Photocopiers with Biztec.
Interest rates range from 9.25% to 10.50%.

## 50. Rental of facilities and equipment

| **Facilities and equipment** | | |
|---|---|---|
| Rental of facilities | 105 412 | 526 |
| Rental of equipment | 129 457 | 200 562 |
| Rental income - Plantation | 1 110 783 | 1 221 610 |
| | **1 345 652** | **1 422 698** |