Jozini Local Municipality
(Registration number KZN 272)
Annual Financial Statements
for the year ended 30 June 2016

## General Information

| | | |
|---|---|---|
| **Legal form of entity** | Local Municipality | |
| **Nature of business and principal activities** | Service Delivery | |
| Executive Committee members | BN Mthethwa | Mayor |
| | TS Mdluli | Deputy Mayor |
| | MZ Nyawo | Speaker |
| | PJ Mabuyakhulu | Exco member |
| | J Siyaya | Exco member |
| | DP Mabika | Exco member |
| | RH Gumede | Exco member |
| | NG Fakude | Exco member |
| | MZ Tembe | Exco member |
| Councillors | JE Buthelezi | Ordinary councillor |
| | BZ Mngomezulu | Ordinary councillor |
| | SM Mthembu | Ordinary councillor |
| | M Mathe | Ordinary councillor |
| | TL Mathenjwa | Ordinary councillor |
| | JM Mpontshane | Ordinary councillor |
| | TZ Nyawo | Ordinary councillor |
| | DM Mthembu | Ordinary councillor |
| | SS Mkhize | Ordinary councillor |
| | BQ Gumede | Ordinary councillor |
| | ZB Ngobe | Ordinary councillor |
| | BI Msweli | Ordinary councillor |
| | GE Ngcamphalala | Ordinary councillor |
| | ME Ndlela | Ordinary councillor |
| | BS Mathenjwa | Ordinary councillor |
| | BN Khumalo | Ordinary councillor |
| | RN Ndlovu | Ordinary councillor |
| | TP Mbhamali | Ordinary councillor |
| | DJ Mthembu | Ordinary councillor |
| | SM Mathenjwa | Ordinary councillor |
| | IO Young | Ordinary councillor |
| | ML Mavundla | Ordinary councillor |
| | SS Macwele | Ordinary councillor |
| | GP Moodley | Ordinary councillor |
| | NL Mathenjwa | Ordinary councillor |
| | KB Madonsela | Ordinary councillor |
| | KNC Dlamini | Ordinary councillor |
| | KP Mbhatha | Ordinary councillor |
| | NS Myeni | Ordinary councillor |
| | T J Ndlanzi | Ordinary councillor |
| | W Zikalala | Ordinary councillor |

## General Information

| | |
|---|---|
| **Grading of local authority** | Grade 2 |
| **Accounting Officer** | Mr SW Zondo |
| **Chief Finance Officer (CFO)** | Mr SI Xulu<br>Acting CFO |
| **Physical address** | Bottom Town<br>Circle Street<br>Jozini<br>3969 |
| **Postal address** | Private Bag x 028<br>Jozini<br>3969 |
| **Bankers** | ABSA Bank<br>FNB Bank |
| **Auditors** | Auditor General of South Africa<br>Registered Auditors |
| **Attorneys** | Weich & Kriel Inc<br>Ndwandwe Attorneys<br>Ubuntu Business Advisory and Consulting services<br>Kwela Attornets<br>Mkhize Attaorneys |
| **Municipality contact details** | Tel: 035 572 1292<br>Fax: 035 572 1266 |

# Index

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



**Abbreviations**

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

## 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 annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual 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 annual financial statements and was given unrestricted access to all financial records and related data.

The annual 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 annual 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 places 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 annual 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.

I am responsible for the preparation of these annual financial statements, which are set out on pages 5 to 46, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 22 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The Annual financial statements set out on pages 5 to 58, which have been prepared on the going concern basis, were approved by the accounting officer on 19 May 2016 and were signed on its behalf by:

**SW Zondo**
**Accounting officer**

## Statement of Financial Position as at 30 June 2016

| Figures in Rand | Note(s) | 2016 | 2015 |
|---|---|---|---|
| **Assets** | | | |
| Current Assets | | | |
| Operating lease asset | 5 | 7 002 | 1 129 |
| Receivables from non-exchange transactions | 6 | 28 411 281 | 36 198 809 |
| VAT receivable | 7 | 5 134 285 | 2 386 704 |
| Receivables from exchange transactions | 8 | 16 905 444 | 11 883 429 |
| Cash and cash equivalents | 9 | 74 627 063 | 22 508 057 |
| | | **125 085 075** | **72 978 128** |
| Non-Current Assets | | | |
| Property, plant and equipment | 3 | 235 651 899 | 216 984 898 |
| Intangible assets | 4 | 585 007 | 132 433 |
| Operating lease asset | 5 | - | 7 002 |
| | | **236 236 906** | **217 124 333** |
| **Total Assets** | | **361 321 981** | **290 102 461** |
| **Liabilities** | | | |
| Current Liabilities | | | |
| Finance lease obligation | 10 | 139 960 | 315 321 |
| Payables from exchange transactions | 14 | 19 122 937 | 14 144 330 |
| Unspent conditional grants and receipts | 11 | 9 227 815 | 8 334 673 |
| Provisions | 12 | 9 793 192 | 8 541 989 |
| Deposit & Refund | 13 | 789 843 | 24 398 |
| | | **39 073 747** | **31 360 711** |
| Non-Current Liabilities | | | |
| Finance lease obligation | 10 | - | 139 960 |
| **Total Liabilities** | | **39 073 747** | **31 500 671** |
| **Net Assets** | | **322 248 234** | **258 601 790** |
| Accumulated surplus | | 322 248 234 | 258 601 790 |

## Statement of Financial Performance

| Figures in Rand | Note(s) | 2016 | 2015 |
|---|---|---|---|
| **Revenue** | | | |
| **Revenue from exchange transactions** | | | |
| Service charges | 17 | 3 673 895 | 4 622 028 |
| Rental of facilities and equipment | 15 | 758 201 | 775 221 |
| Licences and permits | 15 | 1 040 080 | 956 249 |
| Other income | 20 | 690 433 | 1 213 673 |
| Interest income | 24 | 16 937 597 | 9 915 508 |
| **Total revenue from exchange transactions** | | **23 100 206** | **17 482 679** |
| **Revenue from non-exchange transactions** | | | |
| Property rates | 16 | 25 528 119 | 22 564 312 |
| **Transfer revenue** | | | |
| Government grants | 18 | 191 827 658 | 139 813 531 |
| Fines | 19 | 1 349 250 | 1 549 810 |
| Other fines | 19 | 11 966 | 14 790 |
| **Total revenue from non-exchange transactions** | | **218 716 993** | **163 942 443** |
| **Total revenue** | 15 | **241 817 199** | **181 425 122** |
| **Expenditure** | | | |
| Employee related costs | 22 | 50 598 721 | 44 453 784 |
| Remuneration of councillors | 23 | 10 070 316 | 8 171 182 |
| Depreciation and amortisation | 25 | 15 841 978 | 16 114 034 |
| Finance costs | 26 | 550 302 | 542 874 |
| Allowance/(reversal of allowance) for debt impairment | | 28 653 292 | 10 862 381 |
| Repairs and maintenance | | 3 058 041 | 1 767 294 |
| Contracted services | 28 | 15 965 | 69 301 |
| Grants expenditure | 29 | 2 638 062 | 3 031 850 |
| General expenses | 21 | 69 937 231 | 49 814 687 |
| **Total expenditure** | | **181 363 908** | **134 827 387** |
| **Operating surplus** | | **60 453 291** | **46 597 735** |
| Loss on disposal of assets | | - | (1 951 273) |
| **Surplus for the year** | | **60 453 291** | **44 646 462** |

## Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
| --- | --- | --- |
| **Balance at 01 July 2014** | **213 955 328** | **213 955 328** |
| Changes in net assets | | |
| Surplus for the year | 44 646 462 | 44 646 462 |
| Total changes | 44 646 462 | 44 646 462 |
| **Balance at 01 July 2015** | **258 609 844** | **258 609 844** |
| Changes in net assets | | |
| Impairment loss adjustment | 2 369 855 | 2 369 855 |
| Prior period error | 815 244 | 815 244 |
| Net income (losses) recognised directly in net assets | 3 185 099 | 3 185 099 |
| Surplus for the year | 60 453 291 | 60 453 291 |
| Total recognised income and expenses for the year | 63 638 390 | 63 638 390 |
| Total changes | 63 638 390 | 63 638 390 |
| **Balance at 30 June 2016** | **322 248 234** | **322 248 234** |

## Cash Flow Statement

| Figures in Rand | Note(s) | 2016 | 2015 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Property rates | | 15 886 231 | 10 120 496 |
| Sale of goods and services | | 1 516 102 | 6 942 316 |
| Grants | | 192 720 800 | 136 713 140 |
| Interest income | | 4 386 401 | 9 915 508 |
| Other receipts | | 8 342 797 | 2 444 795 |
| Advance receipt of the sale of a stand and hall hire deposits | | 762 202 | - |
| | | 223 614 533 | 166 136 255 |
| **Payments** | | | |
| Employee costs | | (46 193 655) | (48 601 924) |
| Suppliers | | (75 660 958) | (57 439 599) |
| Finance costs | | (550 302) | (542 874) |
| Other payments | | - | (6 562 670) |
| | | (122 404 915) | (113 147 067) |
| **Net cash flows from operating activities** | 30 | **101 209 618** | **52 989 188** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 3 | (48 402 868) | (39 630 689) |
| Proceeds from sale of property, plant and equipment | 3 | - | 762 990 |
| Purchase of other intangible assets | 4 | (547 784) | (77 302) |
| Deposit and refunds | | - | 6 354 |
| **Net cash flows from investing activities** | | **(48 950 652)** | **(38 938 647)** |
| **Cash flows from financing activities** | | | |
| Finance lease payments | | (139 960) | (288 277) |
| **Net increase/(decrease) in cash and cash equivalents** | | **52 119 006** | **13 762 264** |
| Cash and cash equivalents at the beginning of the year | | 22 508 057 | 8 745 793 |
| **Cash and cash equivalents at the end of the year** | 9 | **74 627 063** | **22 508 057** |

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Performance** | | | | | | |
| **Revenue** | | | | | | |
| **Revenue from exchange transactions** | | | | | | |
| Service charges | 3 511 704 | (69 316) | **3 442 388** | 3 673 895 | **231 507** | Was due to the supplementary valuation roll implemented during the year. |
| Rental of facilities and equipment | 890 071 | (71 336) | **818 735** | 758 201 | **(60 534)** | Lower collections of rentals than expected. |
| Licences and permits | 978 269 | 69 879 | **1 048 148** | 1 040 080 | **(8 068)** | Licences and permits are mainly provided for on cash basis so we raise the revenue upon the receipt of payment. |
| Other income | 733 479 | 4 744 369 | **5 477 848** | 690 433 | **(4 787 415)** | Projects were implemented late which resulted to the budgeted not committed as it was intended |
| Interest received - investment | 1 672 000 | 2 725 800 | **4 397 800** | 4 387 186 | **(10 614)** | Higher than expected available funds for investeing. |
| Interest earned - outstanding debtors | 6 813 793 | 4 619 046 | **11 432 839** | 12 550 411 | **1 117 572** | The Municipality had planned to waive interest from the beginning of the Financial year, due to some delays the Municipality did not implement the waiving of interest. Implemented during April |
| **Total revenue from exchange transactions** | **14 599 316** | **12 018 442** | **26 617 758** | **23 100 206** | **(3 517 552)** | |

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Revenue from non-exchange transactions** | | | | | | |
| **Taxation revenue** | | | | | | |
| Property rates | 25 134 113 | 418 065 | **25 552 178** | 25 528 119 | **(24 059)** | Engagements with Land affairs and the Department of Public works provincial responded posiitively. |
| Transfers recognised - operational | 142 067 000 | 500 000 | **142 567 000** | 191 827 658 | **49 260 658** | Over performance is due to the reason that the municipality reduced the original provision on its mid term review because by then performance was way below. |
| **Transfer revenue** | | | | | | |
| Fines | 323 737 | (43 085) | **280 652** | 1 349 250 | **1 068 598** | Municipality has under budgeted, because the budgeting was based on reciepts than fines issued. |
| Licences and permits | - | - | **-** | 11 966 | **11 966** | |
| **Total revenue from non-exchange transactions** | **167 524 850** | **874 980** | **168 399 830** | **218 716 993** | **50 317 163** | |
| **Total revenue** | **182 124 166** | **12 893 422** | **195 017 588** | **241 817 199** | **46 799 611** | |
| **Expenditure** | | | | | | |
| Personnel | (42 802 755) | (6 863 700) | **(49 666 455)** | (50 598 721) | **(932 266)** | Not all posts were filled in 2015-16 Financial year . |
| Remuneration of councillors | (11 949 478) | - | **(11 949 478)** | (10 070 316) | **1 879 162** | Performance on remuneration for councillors is according to the estimated provision. |

# Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| Depreciation and amortisation | (13 734 000) | (7 890 964) | **(21 624 964)** | (15 841 978) | **5 782 986** | Some PPE were impaired last financial year and not removed hance the reclassification of on the building cost price. |
| Finance costs | - | - | **-** | (550 302) | **(550 302)** | Expenditure on finance cost derives from leases amortisation table that is performed year end hence no budget alined to it. |
| Debt impairment | (8 024 000) | (2 838 095) | **(10 862 095)** | (28 653 292) | **(17 791 197)** | Debt impairment under-provision result in the initiative that the municipality is taking to engage debt collector. |
| Contracted Services | (2 542 573) | 278 618 | **(2 263 955)** | (15 965) | **2 247 990** | There Municipality planned to increase its contracts on document management and acess secuty system which were not implemented. |
| Repairs and maintenance | - | - | **-** | (3 058 041) | **(3 058 041)** | Budgted for under general expenditure. |
| Transfers and grants | (529 000) | 376 974 | **(152 026)** | (2 638 062) | **(2 486 036)** | Under budgeting |
| General Expenses | (87 526 176) | 3 555 527 | **(83 970 649)** | (69 937 231) | **14 033 418** | Late implementation of projects. |
| **Total expenditure** | **(167 107 982)** | **(13 381 640)** | **(180 489 622)** | **(181 363 908)** | **(874 286)** | |
| **Surplus before taxation** | **15 016 184** | **(488 218)** | **14 527 966** | **60 453 291** | **45 925 325** | |
| **Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement** | **15 016 184** | **(488 218)** | **14 527 966** | **60 453 291** | **45 925 325** | |

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Position** | | | | | | |
| **Assets** | | | | | | |
| **Current Assets** | | | | | | |
| Operating lease asset | - | - | **-** | 7 002 | **7 002** | |
| Receivables from non-exchange transactions | 28 411 281 | - | **28 411 281** | 28 411 281 | **-** | |
| VAT receivable | - | - | **-** | 5 134 285 | **5 134 285** | Vat refunds were expected to be collected in full by year end. |
| Consumer debtors | 23 700 000 | - | **23 700 000** | 16 905 444 | **(6 794 556)** | Slower than anticipated collection from debtors. |
| Cash and cash equivalents | 21 181 578 | - | **21 181 578** | 74 627 063 | **53 445 485** | Lower than budgeted capital expenditure. |
| | **73 292 859** | **-** | **73 292 859** | **125 085 075** | **51 792 216** | |
| **Non-Current Assets** | | | | | | |
| Property, plant and equipment | 191 673 839 | - | **191 673 839** | 235 819 463 | **44 145 624** | Capital expenditure was lower than expected due to delays in implementation of projects. |
| Intangible assets | - | - | **-** | 585 007 | **585 007** | Budgted for under PPE. |
| | **191 673 839** | **-** | **191 673 839** | **236 404 470** | **44 730 631** | |
| **Total Assets** | **264 966 698** | **-** | **264 966 698** | **361 489 545** | **96 522 847** | |
| **Liabilities** | | | | | | |
| **Current Liabilities** | | | | | | |
| Finance lease obligation | - | - | **-** | 139 960 | **139 960** | Not budgteted for. |
| Payables from exchange transactions | 18 045 159 | - | **18 045 159** | 19 122 937 | **1 077 778** | In line with budget. |
| Unspent conditional grants and receipts | - | - | **-** | 9 227 815 | **9 227 815** | Expenditure on grants was lower that targets. |
| Provisions | 6 831 515 | - | **6 831 515** | 9 793 192 | **2 961 677** | Provisons for for future liabilities exceeded estimated amounts. |

# Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| Deposit & Refund | - | - | **-** | 789 843 | **789 843** | Not budgted for as it was not expected. |
| | **24 876 674** | **-** | **24 876 674** | **39 073 747** | **14 197 073** | |
| **Total Liabilities** | **24 876 674** | **-** | **24 876 674** | **39 073 747** | **14 197 073** | |
| **Net Assets** | **240 090 024** | **-** | **240 090 024** | **322 415 798** | **82 325 774** | |
| **Net Assets** | | | | | | |
| **Net Assets Attributable to Owners of Controlling Entity** | | | | | | |
| **Reserves** | | | | | | |
| Accumulated surplus | 240 090 024 | - | **240 090 024** | 322 415 798 | **82 325 774** | Higher than expected revnue and lower than budgted expenditure. |

**Cash Flow Statement**

**Cash flows from operating activities**

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Receipts** | | | | | | |
| Property rates | 13 823 762 | - | **13 823 762** | 15 886 231 | **2 062 469** | Over collection on property rates is due to the reason that municipality is issuing reminder letters to the property owners and convene meetings with state departments hance a positive turnup. |
| Sale of goods and services | 840 398 | - | **840 398** | 1 516 102 | **675 704** | Over collection on service charges is due to the municipality issuing reminder letters to customers and convene meetings with state departments hance a positive turnup. |

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| Grants | 193 280 000 | - | **193 280 000** | 192 720 800 | **(559 200)** | Under collection on operating expenditure is due to the R559 000 with held as a result of FMG and MSIG not fully spent in the year under review. Also there was R500 000 allocated in terms of DORA from COGTA which was referred to Kwangwenya community hall which was not received by the munipality during the year under review. |
| Interest income | 1 671 534 | - | **1 671 534** | 4 386 401 | **2 714 867** | Over collection on interest is due to the reason that the municipality monitored short term investments very well, more deposits were undertaken on the year under review. |
| Other receipts | 2 267 233 | - | **2 267 233** | 8 342 797 | **6 075 564** | Other Revenue consist of Traffic fines, Sale of bid documents, rental of facilities, and Vat refunds which serves as a reason why we over collected asthe municipality does not estimate for VAT refund. |
| | **211 882 927** | **-** | **211 882 927** | **222 852 331** | **10 969 404** | |

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Payments** | | | | | | |
| Employee costs | (144 821 000) | - | **(144 821 000)** | (44 062 637) | **100 758 363** | Under spending from suppliers was due to the fact that expenditure was properly monitored hence no unauthorised expenditure. Also the municipality is HOD positions are vacant and managers are acting on senior positions of which only 8% they gaining on top of their earnings. |
| Suppliers | - | - | **-** | (82 745 545) | **(82 745 545)** | |
| Finance costs | (114 000) | - | **(114 000)** | (550 302) | **(436 302)** | |
| Other cash item | (529 000) | - | **(529 000)** | - | **529 000** | |
| | **(145 464 000)** | **-** | **(145 464 000)** | **(127 358 484)** | **18 105 516** | |
| **Net cash flows from operating activities** | **66 418 927** | **-** | **66 418 927** | **95 493 847** | **29 074 920** | |
| **Cash flows from investing activities** | | | | | | |
| Purchase of property, plant and equipment | - | - | **-** | (43 374 861) | **(43 374 861)** | |
| Proceeds from sale of property, plant and equipment | (66 229 000) | - | **(66 229 000)** | - | **66 229 000** | Under spending on capital projects is due to the fact that there were some delays experienced during project implementation processes. |
| **Net cash flows from investing activities** | **(66 229 000)** | **-** | **(66 229 000)** | **(43 374 861)** | **22 854 139** | |

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| Net increase/(decrease) in cash and cash equivalents | 189 927 | - | **189 927** | 52 118 986 | **51 929 059** | |
| Cash and cash equivalents at the beginning of the year | 22 508 057 | - | **22 508 057** | 22 508 057 | **-** | |
| **Cash and cash equivalents at the end of the year** | **22 697 984** | **-** | **22 697 984** | **74 627 043** | **51 929 059** | |

# Accounting Policies

## 1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

### 1.1 Presentation currency

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

### 1.2 Going concern assumption

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

### 1.3 Significant judgements and sources of estimation uncertainty

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

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

The municipality assesses its trade receivables for impairment at the end of each reporting period. 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 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 which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use.

**Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 12 - Provisions.

**Effective interest rate**

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

**Allowance for doubtful debts**

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

# Accounting Policies

### 1.4 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 reporting period.

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

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

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

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

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

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

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

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

| **Item** | **Average useful life** |
|---|---|
| Land | |
| • Landfill site | 15 years |
| • Parkhomes | 10 - 40 years |
| • Roads and Pavements | 10 – 60 years |
| • Buildings | 10 – 55 years |
| • Storm water Drainage | 20 years |
| • Parkings and gardens | 10 years |
| • Recreational facilities | 30 years |
| Furniture and fixtures | |
| • Furniture and fittings | 5 – 15 years |
| • Bins and Containers | 5 years |
| Motor vehicles | |
| • Other Vehicles | 5 -15 years |
| Office equipment | |
| • Computer Equipment | 5-15 years |

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

| | |
|---|---|
| • Community Assets building | 15 - 50 years |
| • Community Halls | 30 - 50 years |
| • Libraries | 30 years |

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

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 of the asset.

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

Property, plant and equipment which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

**Work in progress**
Any certified payments are accounted for under "work in progress/assets ander construction" are not depreciated until the asset is complete and available fro use.

**Measurement**
Work in progress is recognised at costs/payments certified.

**Recognition**
Work in progress/assets ander construction are capitalised uner property, plant and equipment when a certificate of practical completion is recieved

### 1.5 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

### 1.6 Intangible assets

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.

# Accounting Policies

### 1.6 Intangible assets (continued)

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

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

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

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

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

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

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indication 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 | 5-15 years |

### 1.7 Financial instruments

**Classification**

The municipality classifies financial assets and financial liabilities into the following categories:
- Financial assets at fair value through surplus or deficit - held for trading
- Held-to-maturity investment
- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Financial assets classified as at fair value through surplus or deficit which are no longer held for the purposes of selling or repurchasing in the near term may be reclassified out of that category:
- if the asset met the definition of loans and receivables and the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

No other reclassifications may be made into or out of the fair value through surplus or deficit category.

### 1.7 Financial instruments (continued)

**Initial recognition and measurement**

Financial instruments or their components are initially recognised by the municipality as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are initially measured at fair value, except for equity investments for which a fair value is not determinable. These equity investments are measured at cost and are classified as available-for-sale financial asset.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

**Subsequent measurement**

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments recognised at fair value through surplus or deficit exclude dividends or similar distributions and interest.

Dividend or similar distributions income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

**Investments**

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

### 1.7 Financial instruments (continued)

**Impairment of financial assets**

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

**Receivables from exchange transactions**

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

**Payables from exchange transactions**

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

**Cash and cash equivalents**

Cash and cash equivalents comprises of cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

## Accounting Policies

### 1.7 Financial instruments (continued)

**Derecognition**

**Financial assets**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

**Financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

**Impairment of financial assets**

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

### 1.8 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.

### 1.8 Leases (continued)

**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 in order to produce a constant periodic rate on the remaining balance of the liability.

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

**Operating leases - lessor**

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

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

**Operating leases - lessee**

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

### 1.9 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

### 1.11 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 provide benefits that are not considered an 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.

### 1.11 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 cell phones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognises 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 measures 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 recognises the expected cost of bonuses, 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.

### 1.12 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.

### 1.12 Provisions and contingencies (continued)

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.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 32.

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, the municipality recognises the obligation at the higher of:
- the amount determined using 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.

**Site restoration and dismantling cost**

Changes in the measurement of an existing decommissioning, restoration and rehabilitation liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.9 and 1.10.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

# Accounting Policies

### 1.13 Revenue from exchange transactions

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

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

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

**Measurement**

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

**Sale of goods**

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

**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 surveys of work performed.

## Accounting Policies

**1.13 Revenue from exchange transactions (continued)**

**Interest**

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

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

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

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

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

**1.14 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.

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.

# Accounting Policies

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

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

**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.

**Taxes**

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

**Transfers**

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

**Value Added Tax**

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

# Accounting Policies

### 1.14 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.

IGRAP1
At the time of initial recognition it is inappropriate to assume that the collectability of amounts owing by individual recipients of goods or services will not occur, because the entity has an obligation to collect all revenue. A decision not to enforce these rights, is a subsequent event. Accordingly, the full amount of revenue should be recognised at initial recognition.

### 1.15 Investment income

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

### 1.16 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

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

### 1.17 Events after the reporting date

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:
- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).
The municipality adjust the amounts recognised in the financial statements to reflect the adjusting events after the reporting date.

The municipality does not adjust the amounts recognised in the annual financial statements to reflect non-adjusting events after the reporting date. If the municipality receives information after the reporting date but before the financial statements are authorised for issue, about conditions that existed at the reporting date, the disclosure that relate to those conditions shall be updated in light of the new information

### 1.18 Comparative figures

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

### 1.19 Unauthorised expenditure

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

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

### 1.20 Fruitless and wasteful expenditure

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

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

### 1.21 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. 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.

Irregular expenditure that was incurred and identified during the current financial year 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.

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

Irregular expenditure that was incurred and identified during the current financial year and 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.

### 1.22 Commitments

Items are classified as commitments where the municipality commits itself into future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:
- Aproved and contracted commitments;
- Where the expenditure has been approved and the contract has been awarded at the reporting date; and
- Where disclosure is required by specific GRAP standard.

### 1.23 Research and development expenditure

Expenditure on research is recognised as an expense when it is incurred.

An asset arising from development 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.

### 1.24 Budget information

Municipalities 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 to the legally adopted budget.

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

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

# Accounting Policies

### 1.24 Budget information (continued)

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

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

### 1.25 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.

### 1.26 Offsetting

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

### 2. New standards and interpretations

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

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

| Standard/ Interpretation: | Effective date: Years beginning on or after | Possible impact |
|---|---|---|
| • Amendements made to Standard of GRAP on Revenue from Non-Exchange Transactions (Taxes and Transfers) | 02 April 2015 | Cannot be reasonably estimated. |

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

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

| Standard/ Interpretation: | Effective date: Years beginning on or after | Possible impact |
|---|---|---|
| • Amendments to GRAP 21 and GRAP 26 | 01 April 2016 | Cannot be reasonably estimated. |
| • Amendments to GRAP 16 and GRAP 17 | 01 April 2016 | Cannot be reasonably estimated. |
| • Improvements made to GRAP standards of GRAP | 01 April 2016 | Cannot be reasonably estimated. |

The aggregate impact of the initial application of the statements and interpretations on the municipality's annual financial statements is expected to be as follows:

### 3. Property, plant and equipment

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** |
| Buildings | 95 620 115 | (12 100 004) | 83 520 111 | 71 006 472 | (6 819 973) | 64 186 499 |
| Motor vehicles | 6 512 500 | (3 647 221) | 2 865 279 | 6 512 505 | (2 384 887) | 4 127 618 |
| Office equipment | 8 269 248 | (6 036 228) | 2 233 020 | 7 610 629 | (4 617 758) | 2 992 871 |
| Infrastructure | 185 754 244 | (118 710 734) | 67 043 510 | 170 879 636 | (108 853 549) | 62 026 087 |
| Work in progress | 79 989 979 | - | 79 989 979 | 83 651 823 | - | 83 651 823 |
| **Total** | **376 146 086** | **(140 494 187)** | **235 651 899** | **339 661 065** | **(122 676 167)** | **216 984 898** |

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

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

| | Opening balance | Additions | Assets for write off | Transfers | Write offs | Depreciation | Total |
|---|---|---|---|---|---|---|---|
| Buildings | 64 186 498 | - | (11) | 21 698 470 | - | (2 364 847) | 83 520 110 |
| Motor vehicles | 4 127 618 | - | (5) | - | - | (1 262 334) | 2 865 279 |
| Office equipment | 2 992 871 | 670 318 | (1 026) | - | (11 700) | (1 417 443) | 2 233 020 |
| Infrastructure | 62 972 495 | 180 447 | (123) | 14 694 161 | - | (10 803 470) | 67 043 510 |
| Work in progress | 83 651 823 | 47 553 268 | - | (36 392 631) | (14 822 481) | - | 79 989 979 |
| | **217 931 305** | **48 404 033** | **(1 165)** | **-** | **(14 834 181)** | **(15 848 094)** | **235 651 898** |

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

| | Opening balance | Additions | Disposals | Depreciation | Impairment loss | Total |
|---|---|---|---|---|---|---|
| Buildings | 68 765 056 | 57 935 | - | (2 272 521) | (2 363 971) | 64 186 499 |
| Motor vehicles | 4 266 567 | 1 278 450 | (184 968) | (1 232 431) | - | 4 127 618 |
| Office equipment | 4 151 276 | 534 821 | - | (1 527 903) | (165 323) | 2 992 871 |
| Infrastructure | 73 987 999 | 22 410 | - | (11 037 914) | - | 62 972 495 |
| Work-in-progress (WIP) | 45 914 750 | 37 737 073 | - | - | - | 83 651 823 |
| | **197 085 648** | **39 630 689** | **(184 968)** | **(16 070 769)** | **(2 529 294)** | **217 931 306** |

**Other information**

The Fixed Asset Register includes assets with a R1 book value that have not been removed due to council not approving the write off thus the Annual Financial Statements and Fixed Asset Register do not reconcile with these assets. These assets amount to R1 126.

No property, plant and equipment were pledged as security for liabilities.

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

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

**Reconciliation of Work-in-Progress 2016**

| | Included within Infrastructure | Included within Community | Total |
| --- | --- | --- | --- |
| Opening balance | 60 288 364 | 23 363 459 | 83 651 823 |
| Additions/capital expenditure | 24 727 424 | 22 828 844 | 47 556 268 |
| Other movements [specify] | (14 822 481) | - | (14 822 481) |
| Transferred to completed items | (14 694 161) | (21 698 470) | (36 392 631) |
| | **55 499 146** | **24 493 833** | **79 992 979** |

**Reconciliation of Work-in-Progress 2015**

| | Included within Infrastructure | Included within Community | Total |
| --- | --- | --- | --- |
| Opening balance | 33 040 304 | 12 874 446 | 45 914 750 |
| Additions/capital expenditure | 27 248 060 | 10 489 013 | 37 737 073 |
| | **60 288 364** | **23 363 459** | **83 651 823** |

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.

**4. Intangible assets**

| | 2016 | | | 2015 | | |
| --- | --- | --- | --- | --- | --- | --- |
| | **Cost / Valuation** | **Accumulated amortisation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated amortisation and accumulated impairment** | **Carrying value** |
| Computer software and systems | 883 378 | (298 371) | 585 007 | 335 594 | (203 161) | 132 433 |

**Reconciliation of intangible assets - 2016**

| | Opening balance | Additions | Amortisation | Total |
| --- | --- | --- | --- | --- |
| Computer software and systems | 132 433 | 547 784 | (95 210) | 585 007 |

**Reconciliation of intangible assets - 2015**

| | Opening balance | Additions | Amortisation | Total |
| --- | --- | --- | --- | --- |
| Computer software and systems | 98 398 | 77 302 | (43 267) | 132 433 |

**Pledged as security**

No intangible assets were pledged as security for liabilities:

**Restricted title**

No intangible assets whose title were restricted.

# Notes to the Annual Financial Statements

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

## 5. Operating lease asset

| | | |
|---|---|---|
| Non-current assets | - | 7 002 |
| Current assets | 7 002 | 1 129 |
| | **7 002** | **8 131** |

## 6. Receivables from non-exchange transactions

| | | |
|---|---|---|
| Fines | 3 291 970 | 2 117 820 |
| Rates | 71 431 515 | 53 138 819 |
| Staff | 9 000 | 9 000 |
| Councillor | 3 832 | 3 832 |
| Allowance - Councillors and staff | (12 832) | - |
| Allowance - Fines | (2 992 960) | (1 694 367) |
| Allowance - Rates | (43 319 244) | (17 376 295) |
| | **28 411 281** | **36 198 809** |

## 7. VAT receivable

| | | |
|---|---|---|
| VAT | 5 134 285 | 2 386 704 |

## Notes to the Annual Financial Statements

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

### 8. Receivables from exchange transactions

| | | |
|---|---|---|
| **Gross balances** | | |
| Refuse removals | 25 967 453 | 19 433 233 |
| Property rental | 1 413 913 | 1 527 200 |
| | **27 381 366** | **20 960 433** |
| **Less: Allowance for impairment** | | |
| Less: Allowance for impairment | (10 475 922) | (9 077 004) |
| **Net balance** | | |
| Refuse | 15 491 531 | 10 356 229 |
| Property rental | 1 413 913 | 1 527 200 |
| | **16 905 444** | **11 883 429** |
| **Rates** | | |
| Current (0 -30 days) | 963 939 | 2 698 888 |
| 31 - 60 days | 635 789 | 1 093 474 |
| 61 - 90 days | 635 789 | 1 569 067 |
| 91 - 120 days | 586 611 | 1 026 678 |
| 121 - 365 days | 65 445 344 | 46 750 544 |
| | **68 267 472** | **53 138 651** |
| **Staff** | | |
| > 365 days | 3 951 | 3 832 |
| **Councillors** | | |
| > 365 days | 9 000 | 9 000 |
| **Traffic fines** | | |
| Current (0 -30 days) | 139 100 | 121 750 |
| 31 - 60 days | 61 600 | 189 810 |
| 61 - 90 days | 121 600 | 163 700 |
| 91 - 120 days | 120 900 | 187 750 |
| 121 - 365 days | 2 848 770 | 1 452 510 |
| | **3 291 970** | **2 115 520** |
| **Refuse removals** | | |
| Current (0 -30 days) | 336 907 | 1 269 276 |
| 31 - 60 days | 258 842 | 541 681 |
| 61 - 90 days | 249 761 | 520 893 |
| 91 - 120 days | 247 180 | 512 001 |
| 121 - 365 days | 23 194 072 | 16 589 550 |
| | **24 286 762** | **19 433 401** |
| **Property rental** | | |
| Current (0 -30 days) | 20 912 | 115 090 |
| 31 - 60 days | 42 548 | 54 722 |
| 61 - 90 days | 42 428 | 54 722 |
| 91 - 120 days | 42 428 | 54 695 |
| 121 - 365 days | 1 565 566 | 1 247 968 |
| | **1 713 882** | **1 527 197** |

## Notes to the Annual Financial Statements

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

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

| **Reconciliation of allowance for impairment** | | |
|---|---|---|
| Balance at beginning of the year | 28 150 466 | 17 286 285 |
| Contributions to allowance | (1 398 918) | 10 864 181 |
| | **26 751 548** | **28 150 466** |

### 9. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---|---|---|
| Cash on hand | 12 449 | 22 376 |
| Bank balances | 20 932 916 | 15 271 905 |
| Short-term deposits | 53 681 698 | 7 213 776 |
| | **74 627 063** | **22 508 057** |

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

**The municipality had the following bank accounts**

| Account number / description | Bank statement balances | | | Cash book balances | | |
| --- | --- | --- | --- | --- | --- | --- |
| | 30 June 2016 | 30 June 2015 | 30 June 2014 | 30 June 2016 | 30 June 2015 | 30 June 2014 |
| FNB: Main account - 6202 418 5432 | 8 925 696 | 6 032 492 | 6 457 728 | 8 925 696 | 6 032 492 | 6 457 728 |
| Petty cash | - | - | - | 70 | 558 | 465 |
| ABSA: Operational account - 4069 624 954 | 12 007 220 | 9 328 117 | 1 541 150 | 12 007 220 | 9 239 413 | 375 212 |
| Grindrod: Investment - 164419/11000 034006 | - | 278 611 | 100 895 | - | 278 611 | 100 895 |
| STD: Investment - 268741042 | 10 173 392 | 16 153 | - | 10 173 392 | 16 153 | - |
| ABSA: Investment - 2073276014 | - | 5 051 140 | - | - | 5 051 140 | - |
| Cashier's collection | - | - | - | 12 379 | 21 817 | 37 409 |
| FNB: Unspent conditional grant - 62406733164 | 1 785 447 | 1 683 891 | 1 598 669 | 1 785 447 | 1 683 891 | 1 598 669 |
| FNB MIG - 62424077403 | 195 203 | 183 981 | 174 611 | 195 203 | 183 981 | 174 611 |
| Ithala: Investment - 18607525 | 5 056 874 | - | 803 | 5 056 874 | - | 803 |
| FNB Investment | 15 319 275 | - | - | 15 319 275 | - | - |
| Grindrod/Marriot | 11 021 308 | - | - | 11 021 308 | - | - |
| Investec | 10 130 199 | - | - | 10 130 199 | - | - |
| **Total** | **74 614 614** | **22 574 385** | **9 873 856** | **74 627 063** | **22 508 056** | **8 745 792** |

### 10. Finance lease obligation

| | 2016 | 2015 |
| --- | --- | --- |
| **Minimum lease payments due** | | |
| - within one year | 139 960 | 343 500 |
| - in second to fifth year inclusive | - | 143 125 |
| | 139 960 | 486 625 |
| less: future finance charges | - | (31 344) |
| **Present value of minimum lease payments** | **139 960** | **455 281** |

| | 2016 | 2015 |
| --- | --- | --- |
| **Present value of minimum lease payments due** | | |
| - within one year | 139 960 | 315 321 |
| - in second to fifth year inclusive | - | 139 960 |
| | **139 960** | **455 281** |

| | 2016 | 2015 |
| --- | --- | --- |
| Non-current liabilities | - | 139 960 |
| Current liabilities | 139 960 | 315 321 |
| | **139 960** | **455 281** |

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

The average lease term was 3 years and the average effective borrowing rate was 9% (2015: 9%).

# Notes to the Annual Financial Statements

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

### 11. Unspent conditional grants and receipts

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

| | | |
|---|---|---|
| **Unspent conditional grants and receipts** | | |
| Housing grant | 83 492 | 83 492 |
| MIG | 2 280 847 | 4 775 596 |
| Ndumo sport field | 508 922 | 508 922 |
| Internal control unit | 150 000 | 150 000 |
| Ward committee induction training | 5 355 | 5 355 |
| Municipal housing sector plan | 11 775 | 11 775 |
| Jozini upgrading projects | 107 606 | 107 606 |
| Fresh product market | 73 002 | 73 002 |
| Bhambanana town formalisation | 69 365 | 69 365 |
| Synegistic program | 7 224 | 7 224 |
| Ubuhle besiko cultural village | 69 700 | 69 700 |
| Bhanjana road | 624 412 | 624 412 |
| Library grant | - | 129 385 |
| IDP Grant | 240 | 240 |
| National electrification grant | 3 517 276 | - |
| Development of recycling centre | 10 730 | 10 730 |
| LG Expert | 22 384 | 22 384 |
| Jozini town formalisation | 1 626 702 | 1 626 702 |
| DBSA contribution | 10 365 | 10 365 |
| Implementation of pound | 48 418 | 48 418 |
| | **9 227 815** | **8 334 673** |

## 12. Provisions

**Reconciliation of provisions - 2016**

| | Opening Balance | Additions | Total |
|---|---|---|---|
| Provision for long service award | 1 064 000 | 191 000 | 1 255 000 |
| Provision for leave pay | 2 550 213 | 505 498 | 3 055 711 |
| Provision for landfill site | 4 277 117 | 550 799 | 4 827 916 |
| Provision for Annual bonus | 650 659 | 3 906 | 654 565 |
| | **8 541 989** | **1 251 203** | **9 793 192** |

**Reconciliation of provisions - 2015**

| | Opening Balance | Additions | Utilised during the year | Reversed during the year | Total |
|---|---|---|---|---|---|
| Provision for long service award | 1 078 000 | - | - | (14 000) | 1 064 000 |
| Provision for leave pay | 2 205 628 | 344 585 | - | - | 2 550 213 |
| Provision for landfill site | 3 789 464 | 487 653 | - | - | 4 277 117 |
| Provision for performance bonus | 66 707 | - | (66 707) | - | - |
| Provision for Annual bonus | 1 379 033 | 692 359 | (1 420 733) | - | 650 659 |
| | **8 518 832** | **1 524 597** | **(1 487 440)** | **(14 000)** | **8 541 989** |

**The provision for rehabilitation of landfill site**

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal in accordance with the National Environmental Management Act 107 of 1998 and the Environment Conservation Act No 73 of 1989. It is calculated as the present value of the expenditure expected to be required to settle the future obligation to rehabilitate the landfill sites.

The discount rate used reflect the current market assessment of the time value of money and the risks specific to the liability. The valuation for the provision of the landfill sites was reviewed by an independent landfill site and environmental specialist.

**The long-service award**

The long-service award is payable after every 10 years of continuous service. The provision is an estimate of the long-service based on historical staff turnover and has been determined by an Actuary.

**The annual bonus**

The annual bonus is payable on the anniversary of the employee's date of employment with the Municipality. The annual bonus is calculated monthly as per the formula at the ordinary salary rate earned during each relevant month and accumulated and paid to the employee.

A Municipality pays every employee, for each month that the employee was paid or entitled to be paid in respect of each completed 12 months of service with such Municipality. In the event that the employee's contract of employment ends before the end of any subsequent 12 month cycle with the same Municipality, the employee receives a prorated share of the bonus for the period of the year that he/she has worked.

**Performance bonus**

In terms of the performance agreements, employee's contract of employment, Local Government Performance Regulations - 2006, and the Jozini Remuneration Policy, management (Section 57 managers) are entilted to the payment of a performance bonus that is equivalent to the score obtained during performance appraisal.

### 12. Provisions (continued)

Relates to accrual for unused leave at year-end. The leave is expected to be taken over the next two financial years and is calculated based on employee total cost to company.

The leave is payable to the employee on resignation and has an option of the leave days to be paid out or cashed.

### 13. Deposit & refund

| | 2016 | 2015 |
|---|---|---|
| Unclaimed deposits relating to hall hiring and sale of land | | |
| Hall hire | 27 639 | 24 398 |
| Sale of stand | 762 204 | - |
| | **789 843** | **24 398** |

### 14. Payables from exchange transactions

| | 2016 | 2015 |
|---|---|---|
| Trade payables | 12 902 061 | 9 495 625 |
| Retention | 5 935 876 | 3 791 795 |
| Surety | 285 000 | 285 000 |
| Payroll creditors | - | 571 910 |
| | **19 122 937** | **14 144 330** |

### 15. Revenue

| | 2016 | 2015 |
|---|---|---|
| Service charges | 3 673 895 | 4 622 028 |
| Rental of facilities and equipment | 758 201 | 775 221 |
| Licences and permits | 1 040 080 | 956 249 |
| Other income | 690 433 | 1 213 673 |
| Interest received - investment | 16 937 597 | 9 915 508 |
| Property rates | 25 528 119 | 22 564 312 |
| Government grants | 191 827 658 | 139 813 531 |
| Fines | 1 349 250 | 1 549 810 |
| Other transfer revenue 1 | 11 966 | 14 790 |
| | **241 817 199** | **181 425 122** |

| | 2016 | 2015 |
|---|---|---|
| **The amount included in revenue arising from exchanges of goods or services are as follows:** | | |
| Service charges | 3 673 895 | 4 622 028 |
| Rental of facilities and equipment | 758 201 | 775 221 |
| Licences and permits | 1 040 080 | 956 249 |
| Other income - (rollup) | 690 433 | 1 213 673 |
| Interest received - investment | 16 937 597 | 9 915 508 |
| | **23 100 206** | **17 482 679** |

| | 2016 | 2015 |
|---|---|---|
| **The amount included in revenue arising from non-exchange transactions is as follows:** | | |
| **Taxation revenue** | | |
| Property rates | 25 528 119 | 22 564 312 |
| **Transfer revenue** | | |
| Government grants | 191 827 658 | 139 813 531 |
| Fines | 1 349 250 | 1 549 810 |
| Other | 11 966 | 14 790 |
| | **218 716 993** | **163 942 443** |

# Notes to the Annual Financial Statements

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

### 16. Property rates

**Rates received**

| | | |
|---|---|---|
| Residential | 1 714 517 | 1 713 812 |
| Commercial | 9 886 709 | 9 843 866 |
| State | 12 679 921 | 11 659 761 |
| Agricultural | 2 010 328 | 1 890 824 |
| Rural Communal Land | 714 764 | 714 764 |
| Public Service Infrastructure | 23 847 | 23 847 |
| Specialised Properties | 2 958 331 | 3 242 552 |
| Less: Rebates and exemptions | (1 454 309) | (1 433 826) |
| Less: Income forgone | (3 005 989) | (5 091 288) |
| | **25 528 119** | **22 564 312** |

**Valuations**

| | | |
|---|---|---|
| Agriculture | 859 398 000 | 859 398 000 |
| Business, Commercial and Industrial | 465 034 000 | 465 034 000 |
| Commercial Tourism | 138 586 000 | 138 586 000 |
| Hospitality industry | 1 880 000 | 1 880 000 |
| Municipal | 3 040 000 | 3 040 000 |
| Place of worship | 9 563 000 | 9 563 000 |
| Protected areas | 865 549 000 | 865 549 000 |
| Public Service Infrastructure | 13 311 000 | 13 311 000 |
| Rural Communal Land | 255 273 000 | 255 273 000 |
| Residential | 153 228 000 | 153 228 000 |
| Specialised Non-Market | 83 047 000 | 83 047 000 |
| State Owned | 1 053 856 000 | 1 053 856 000 |
| | **3 901 765 000** | **3 901 765 000** |

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A reduction in the value of residential properties for rating purposes will apply at R60, 000. The municipality will in terms if the Property Rates Policy consider rebates on certain categories of owners of properties namely Pensioners, disabled and retiree and certain use of categories which include non-profit organisations. Formal applications that comply with the criteria stipulated in the Prporty Rates Policy must be submitted.

Rebates of 25% (2015: 25%) are granted to agricultural properties owners and Public Service Infrastructure of 30% (2014: 30%) .

Interest at 1.5% per annum (2015: 2%), is levied on rates not paid on the due date.

### 17. Service charges

| | | |
|---|---|---|
| Residential properties | 1 422 561 | 1 770 158 |
| Rural communal land | 463 173 | 577 043 |
| Specialised properties | 238 752 | 251 625 |
| Commercial properties | 1 549 409 | 2 023 202 |
| | **3 673 895** | **4 622 028** |

## Notes to the Annual Financial Statements

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

### 18. Government grants

| | | |
|---|---|---|
| **Operating grants** | | |
| Equitable share | 136 441 000 | 103 677 000 |
| Finance Management Grant | 1 519 000 | 1 519 000 |
| Fresh product market | - | 145 200 |
| Library grant | 1 126 185 | 1 019 225 |
| Supply of solar, water and geyser | - | 748 205 |
| MSIG | 652 000 | 656 000 |
| Supply of water | - | 1 563 897 |
| Jozini Town formalisation | - | 131 450 |
| Umnothophansi Ndumo and maize milling project | - | 1 184 150 |
| Ward committee induction training | - | 18 000 |
| EPWP | 1 899 000 | 2 011 000 |
| | 141 637 185 | 112 673 127 |
| **Capital grants** | | |
| National Electrification Program Grant | 11 482 724 | 7 000 000 |
| MIG | 38 707 749 | 20 140 404 |
| | 50 190 473 | 27 140 404 |
| | **191 827 658** | **139 813 531** |

**Conditional and Unconditional**

Included in above are the following grants received:

| | | |
|---|---|---|
| Conditional grants received | 55 750 512 | 37 587 000 |
| Unconditional grants received | 135 882 000 | 103 118 000 |
| | **191 632 512** | **140 705 000** |

**Equitable Share**

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

**Housing Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 83 492 | 83 492 |

Conditions still to be met - remain liabilities (see note 11).

**Municipal infrastructure grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 4 775 596 | - |
| Current-year receipts | 36 213 000 | 24 916 000 |
| Conditions met - transferred to revenue | (38 707 749) | (20 140 404) |
| | **2 280 847** | **4 775 596** |

Conditions still to be met - remain liabilities (see note 11).

**Ndumo Sportfield**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 508 922 | 508 922 |

Conditions still to be met - remain liabilities (see note 11).

# Notes to the Annual Financial Statements

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

**18. Government grants (continued)**

**Establishment of internal control unit**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 150 000 | 150 000 |

Conditions still to be met - remain liabilities (see note 11).

**Ward committee induction training**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 5 355 | 23 355 |
| Conditions met - transferred to revenue | - | (18 000) |
| | **5 355** | **5 355** |

Conditions still to be met - remain liabilities (see note 11).

**Municipal housing sector plan**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 11 775 | 11 775 |

Conditions still to be met - remain liabilities (see note 11).

**Jozini upgrading project**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 107 606 | 107 606 |

Conditions still to be met - remain liabilities (see note 11).

**Fresh product market**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 73 002 | 218 202 |
| Conditions met - transferred to revenue | - | (145 200) |
| | **73 002** | **73 002** |

Conditions still to be met - remain liabilities (see note 11).

**Bhambanana town formalisation**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 69 365 | 69 365 |

Conditions still to be met - remain liabilities (see note 11).

**Synergistic programme**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 7 224 | 7 224 |

Conditions still to be met - remain liabilities (see note 11).

**Ubuhle besiko cultural village**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 69 700 | 69 700 |

Conditions still to be met - remain liabilities (see note 11).

**Bhanjana road**

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

**18. Government grants (continued)**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | 624 412 | 624 412 |

Conditions still to be met - remain liabilities (see note 11).

**Umnothophansi Ndumo and maize milling project**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | - | 1 184 150 |
| Conditions met - transferred to revenue | - | (1 184 150) |
| | **-** | **-** |

Conditions still to be met - remain liabilities (see note 11).

**Library grant**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | 129 385 | 222 609 |
| Current-year receipts | 996 800 | 926 000 |
| Conditions met - transferred to revenue | (1 126 185) | (1 019 224) |
| | **-** | **129 385** |

Conditions still to be met - remain liabilities (see note 11).

**IDP Grant**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | 240 | 240 |

Conditions still to be met - remain liabilities (see note 11).

**MSIG grant**

| | | |
| --- | --- | --- |
| Current-year receipts | 930 000 | 934 000 |
| Repaid | (278 000) | (278 000) |
| Conditions met - transferred to revenue | (652 000) | (656 000) |
| | **-** | **-** |

Conditions still to be met - remain liabilities (see note 11).

**FMG**

| | | |
| --- | --- | --- |
| Current-year receipts | 1 800 000 | 1 800 000 |
| Repaid | (281 000) | (281 000) |
| Conditions met - transferred to revenue | (1 519 000) | (1 519 000) |
| | **-** | **-** |

Conditions still to be met - remain liabilities (see note 11).

**EPWP**

| | | |
| --- | --- | --- |
| Current-year receipts | 1 899 000 | 2 011 000 |
| Conditions met - transferred to revenue | (1 899 000) | (2 011 000) |
| | **-** | **-** |

Conditions still to be met - remain liabilities (see note 11).

Provide explanations of conditions still to be met and other relevant information.

# Notes to the Annual Financial Statements

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

## 18. Government grants (continued)

**Integrated national electrification**

| | | |
|---|---|---|
| Current-year receipts | 15 000 000 | 7 000 000 |
| Conditions met - transferred to revenue | (11 482 724) | (7 000 000) |
| | **3 517 276** | **-** |

Conditions still to be met - remain liabilities (see note 11).

**Development of recycling centre**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 10 730 | 10 730 |

Conditions still to be met - remain liabilities (see note 11).

**LG expert**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 22 384 | 22 384 |

Conditions still to be met - remain liabilities (see note 11).

**Jozini town formalisation**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 1 626 702 | 1 758 152 |
| Conditions met - transferred to revenue | - | (131 450) |
| | **1 626 702** | **1 626 702** |

Conditions still to be met - remain liabilities (see note 11).

**DBSA contribution**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 10 365 | 10 365 |

Conditions still to be met - remain liabilities (see note 11).

**Implementation of pound**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 48 418 | 48 418 |

Conditions still to be met - remain liabilities (see note 11).

**Supply of solar, water and geyser**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | 2 312 102 |
| Current-year receipts | 3 127 794 | - |
| Conditions met - transferred to revenue | (3 127 794) | (2 312 102) |
| | **-** | **-** |

Conditions still to be met - remain liabilities (see note 11).

# Notes to the Annual Financial Statements

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

## 19. Fines

| | 2016 | 2015 |
|---|---|---|
| Traffic Fines | 1 349 250 | 1 548 010 |
| Pound fines | 7 868 | 11 184 |
| Library fines | 4 098 | 3 606 |
| | **1 361 216** | **1 562 800** |

## 20. Other income

| | 2016 | 2015 |
|---|---|---|
| Miscellaneous | 25 028 | 27 675 |
| Cemeteries | 10 974 | 8 034 |
| Town planning fees | 20 458 | 13 444 |
| Commission Received | 17 368 | 21 113 |
| Library fines, Combo signs and trading licences | 2 281 | 5 897 |
| Sale Of Documents | 35 790 | 119 299 |
| Clearance Certificates (Rates) | 3 185 | 9 203 |
| Ashbin waste management fund | - | 2 705 |
| Annual bonus provision adjustment | (3 905) | (218 035) |
| Employees cellphone deduction | 261 771 | 393 598 |
| Stadiums and Halls Hire | 63 609 | 68 112 |
| Insurance claims | - | 147 426 |
| Direct deposit clearing | 3 845 | 3 845 |
| Donations | - | 611 357 |
| Refund LGSETA | 247 587 | - |
| Billboards | 2 442 | - |
| | **690 433** | **1 213 673** |

## Notes to the Annual Financial Statements

### 21. General expenses

| Figures in Rand | 2016 | 2015 |
|---|---|---|
| Audit committee fees | 257 681 | 349 674 |
| Advertising | 471 750 | 444 720 |
| Auditors remuneration | 1 485 874 | 1 293 326 |
| Bank charges | 53 580 | 55 691 |
| Cleaning | 286 948 | 302 303 |
| Legal fees | 390 501 | 1 809 027 |
| Internal Audit fees | 785 362 | 767 947 |
| Entertainment | 754 661 | 1 262 769 |
| Ndumo maize meal plant | - | 1 166 940 |
| Insurance | 288 567 | 237 557 |
| Employee wellness | 516 711 | 726 913 |
| Accommodation expense | 2 315 337 | 2 135 178 |
| Ward Committee Support | 1 286 622 | 415 893 |
| Geyser supply - Makhonyeni area | - | 656 320 |
| Electricity | 15 540 048 | 695 551 |
| Motor vehicle Licences | 38 513 | 199 863 |
| Fuel and oil | 1 253 118 | 1 238 045 |
| Printing and stationery | 756 396 | 518 058 |
| Publicity | 328 933 | 178 670 |
| Postage and Telephone | 433 958 | 579 861 |
| Subscriptions and membership fees | 645 959 | 501 532 |
| Cellphones and data card expenses | 1 604 291 | 1 786 486 |
| Training | 2 640 017 | 1 186 493 |
| Subsistence & Travel | 4 237 129 | 5 288 661 |
| Professional Fees | 4 306 446 | 3 298 761 |
| Synegestic Partnership | 60 647 | 42 280 |
| Uniforms | 265 326 | 534 335 |
| Systems and IT costs | 1 032 385 | 1 596 818 |
| Other Expenditure | 3 992 516 | 2 979 334 |
| Municipal special programmes and events | 4 210 719 | 2 877 090 |
| Poverty alleviation | 13 335 653 | 10 329 407 |
| Operation Sukuma Sakhe Interventions | 2 215 687 | 1 478 622 |
| Community participation programmes | 1 336 600 | 317 500 |
| Licences | 10 331 | 4 417 |
| Valuation roll expense | 407 965 | 164 895 |
| Ward Committees Out of Pocket Expenses | 2 391 000 | 2 393 750 |
| | **69 937 231** | **49 814 687** |

# Notes to the Annual Financial Statements

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

## 22. Employee related costs

| | | |
|---|---|---|
| Basic | 34 940 568 | 28 951 044 |
| Bonus | 1 595 340 | 1 354 026 |
| Medical aid - company contributions | 1 502 041 | 1 436 163 |
| Unemployement Insurance Fund | 260 500 | 266 729 |
| Skills Development Levy | 359 124 | 446 870 |
| Rural Allowances | 136 353 | - |
| Leave pay provision charge | 859 538 | 512 514 |
| Defined contribution plans | 3 918 222 | 3 654 051 |
| Travel, motor car, accommodation, subsistence and other allowances | 2 754 185 | 3 998 107 |
| Overtime payments | 1 977 919 | 1 166 791 |
| Acting allowances | 163 548 | 217 559 |
| Housing benefits and allowances | 451 275 | 369 530 |
| Cellphone allowances | 269 313 | 600 |
| Personal facility | 232 413 | 104 000 |
| Solid waste salaries | 1 178 382 | 1 975 800 |
| | **50 598 721** | **44 453 784** |

**Remuneration of municipal manager**

| | | |
|---|---|---|
| Annual Remuneration | 315 828 | 364 437 |
| Car Allowance | 19 080 | 197 606 |
| Contributions to UIF, Medical and Pension Funds | 18 800 | 144 786 |
| Other | - | 38 897 |
| | **353 708** | **745 726** |

**Remuneration of acting municipal manager (SW Zondo)**

| | | |
|---|---|---|
| Annual Remuneration | 470 903 | 300 333 |
| Car Allowance | - | 38 462 |
| Acting alowance | 33 029 | - |
| Contributions to UIF, Medical and Pension Funds | - | 100 613 |
| | **503 932** | **439 408** |

**Remuneration of chief finance officer**

| | | |
|---|---|---|
| Annual Remuneration | 287 846 | 536 366 |
| Car Allowance | 79 919 | 54 765 |
| Reimbursive Travel | 6 437 | - |
| Contributions to UIF, Medical and Pension Funds | 31 830 | 84 173 |
| Housing allowance | 44 399 | - |
| | **450 431** | **675 304** |

# Notes to the Annual Financial Statements

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

### 22. Employee related costs (continued)

**Remuneration of technical services (SG Hlatshwayo)**

| | | |
|---|---|---|
| Annual Remuneration | 381 598 | 548 080 |
| Car Allowance | 135 000 | - |
| Contributions to UIF, Medical and Pension Funds | 81 282 | - |
| Reimbursive Travel | 72 298 | - |
| Acting Allowance (Acting MM) | 93 921 | - |
| | **764 099** | **548 080** |

**Acting Chief Financial Officer (IS Xulu)**

| | | |
|---|---|---|
| Annual Remuneration | 154 974 | - |
| Contributions to UIF, Medical and Pension Funds | 34 656 | - |
| Travel allowance | 394 611 | - |
| Acting allowance | 21 311 | - |
| | **605 552** | **-** |

### 23. Remuneration of councillors

| | | |
|---|---|---|
| Mayor | 786 347 | 719 369 |
| Deputy Mayor | 489 057 | 435 565 |
| Executive Committee Members | 1 738 950 | 2 318 600 |
| Speaker | 737 870 | 756 159 |
| Councillors | 6 318 092 | 3 941 489 |
| | **10 070 316** | **8 171 182** |

**In-kind benefits**

The Mayor and the Speaker each have the use of separate Council owned vehicles for official duties.

The Mayor and speaker each have two full-time bodyguards.

### 24. Interest income

| | | |
|---|---|---|
| **Interest revenue** | | |
| Interest charged on trade and other receivables | 12 550 411 | 8 330 486 |
| Interest received - external investments | 2 405 854 | 848 691 |
| Interest received - current account | 1 981 332 | 736 331 |
| | **16 937 597** | **9 915 508** |

### 25. Depreciation and amortisation

| | | |
|---|---|---|
| Property, plant and equipment | 15 746 768 | 16 070 768 |
| Intangible assets | 95 210 | 43 266 |
| | **15 841 978** | **16 114 034** |

### 26. Finance costs

| | | |
|---|---|---|
| Other interest paid | 550 302 | 542 874 |

### 27. Auditors' remuneration

| | | |
|---|---|---|
| Fees | 1 485 874 | 1 293 326 |

# Notes to the Annual Financial Statements

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

## 28. Contracted services

| | | |
|---|---|---|
| State Information Technology Agency | 15 965 | 69 301 |

## 29. Grant expenditure

| | | |
|---|---|---|
| **Other expenditure relating to operational grants** | | |
| Finance Management Grant - FMG | 1 022 627 | 1 652 809 |
| Library grant | 1 242 584 | 964 217 |
| MSIG | 372 851 | 414 824 |
| | **2 638 062** | **3 031 850** |

## 30. Cash generated from operations

| | | |
|---|---|---|
| Surplus | 60 453 291 | 44 646 462 |
| **Adjustments for:** | | |
| Depreciation and amortisation | 15 841 978 | 16 114 034 |
| Loss on sale of assets | - | 1 951 273 |
| Movements in operating lease assets and accruals | 1 129 | (8 131) |
| Movements in provisions | 1 251 203 | 23 157 |
| Other non-cash items | (296 393) | 1 454 012 |
| Advance receipt of the sale of a stand | 762 202 | - |
| Movement in leave pay | - | 344 585 |
| Debt impairment allowance | 17 306 527 | - |
| **Changes in working capital:** | | |
| Consumer debtors | (5 022 015) | (5 183 707) |
| Other receivables from non-exchange transactions | 7 787 528 | (8 290 474) |
| Payables from exchange transactions | 4 978 607 | 1 404 998 |
| VAT | (2 747 581) | (358 491) |
| Unspent conditional grants and receipts | 893 142 | 891 470 |
| | **101 209 618** | **52 989 188** |

## 31. Commitments

**Authorised capital expenditure**

| | | |
|---|---|---|
| **Already contracted for but not provided for** | | |
| • Property, plant and equipment | 25 747 391 | 36 937 784 |
| • Operating commitments | 1 758 965 | 9 510 430 |
| | **27 506 356** | **46 448 214** |

| | | |
|---|---|---|
| **Not yet contracted for and authorised by accounting officer** | | |
| • Property, plant and equipment | - | 1 035 652 |

The committments disclosed above are VAT inclusive.

### 32. Contingencies

| Matter | Details | Name of claimant | Claim |
|---|---|---|---|
| Breach of agreement | Preson Investments (Pty) Ltd obtained the contract for the delivery of VAT services to the Municipality by virtue of an Agreement of Cession | Preson Investments (Pty) Ltd | R3 500 000 |
| Breach of contract | Plaintiff alleges that they obtained contract to build the Mpondwane Community Hall but the Municipality cancelled the agreement | Siyakwethemba JV Mbuthuma Construction | R520 754 |
| Unlawful arrest and assault | Illegal arrest, detention and assault on by employees of the Municipality as well as assault. | JS Ngcampalala | R90 000 |
| Setting aside of council decision | Setting aside of council decision to appoint Mr Putin | The MEC of COGTA and Mr Putini | R150 000 |
| Oustanding fees | Oustanding fees | Ndwandwe Attorneys | R160 000 |
| Pale Native | Application to compel | Pale Native Consultants | R80 000 |
| | | | **R4 032 054** |

### 33. Related parties

**Related party transactions**

| | 2016 | 2015 |
|---|---|---|
| **Payment made for hiring of sound system** | | |
| Khanuka Agricultural and multi-purpose Co-operative Limited | 13 500 | - |

### 34. Prior period errors

The trade payables were incorreclt understated by an amount of R8 055.

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

| | 2016 | 2015 |
|---|---|---|
| **Statement of financial position** | | |
| Accumulated surplus | 131 164 | - |
| Trade and other payables | (131 164) | - |
| Provision for annual bonus | 946 408 | - |
| Accumulated surplus | (946 408) | - |

### 35. Risk management

**Financial risk management**

**Liquidity risk**

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

| At 30 June 2016 | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|
| Trade payables from exchange transactions | 19 002 637 | - | - | - |
| Financial Leases | 139 690 | - | - | - |

| At 30 June 2015 | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|
| Trade payables from exchange transactions | 14 136 275 | - | - | - |
| Financial Leases | 315 321 | 139 960 | - | - |

**Credit risk**

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

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

| Financial instrument | 2016 | 2015 |
|---|---|---|
| Receivables from exchange transactions | 16 905 444 | 11 883 597 |
| Receivables from non - exchange transactions | 28 411 281 | 36 194 041 |
| Cash and cash equivalents | 16 457 313 | 22 508 056 |

**Market risk**

**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.

### 36. 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.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the current assets were higher than current liabilities. This was mainly due to high receivables from non-exchange transactions as well as cash backed unspent conditional grants. Furhter, the municipality will continue to operate as going concern as there are guaranteed equitable share allocations that will be injecting cash on a continious basis.

## Notes to the Annual Financial Statements

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

### 37. Events after the reporting date

The following matter took place since the end of the financial year:

Subsequent to year end:

In a court matter where it was alleged that the Municipality was in breach of a contract with Mothei Consulting Engineers. The claim amount of R1 139 504.95 was settled. The amount is included in note 14 as part of trade and other payables.

The new Councillors were inagurated following the local government elections that took place on 3 August 2016.

The accounting officer is not aware of any other matter or circumstance arising since the end of the financial year.

### 38. Unauthorised expenditure

| | | |
| --- | --- | --- |
| Unauthorised expenditure | 17 790 911 | 1 042 754 |

### 39. Fruitless and wasteful expenditure

| | | |
| --- | --- | --- |
| Fruitless and wasteful expenditure | 116 582 | 917 080 |

### 40. Irregular expenditure

| | | |
| --- | --- | --- |
| Opening balance | 240 374 069 | 182 730 213 |
| Add: Irregular Expenditure - current year | - | 19 776 326 |
| Add: Irregular expenditure - Capital Expenditure/ Tenders Prior | 43 370 850 | 25 040 841 |
| Add: Irregular expenditure - Other | 4 983 494 | 12 123 886 |
| Add: Irregular expenditure - suppliers with no declaration of interest | 5 316 821 | 321 363 |
| Add Irregular expenditure - Suppliers in service of the state | - | 381 440 |
| Excess payments on lease agreement | 142 407 | - |
| | **294 187 641** | **240 374 069** |

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

| | | |
| --- | --- | --- |
| Current year | 53 813 572 | 57 643 856 |
| Prior years | 240 374 069 | 182 730 213 |
| | **294 187 641** | **240 374 069** |

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

**Contributions to organised local government**

| | | |
| --- | --- | --- |
| Current year subscription / fee | 625 000 | 500 000 |

**Audit fees**

| | | |
| --- | --- | --- |
| Current year subscription / fee | 1 661 602 | 1 293 326 |
| Amount paid - current year | (1 661 602) | (1 293 326) |
| | **-** | **-** |

**PAYE and UIF**

| | | |
| --- | --- | --- |
| Current year subscription / fee | 4 721 589 | 6 073 471 |
| Amount paid - current year | (4 215 467) | (5 501 561) |
| | **506 122** | **571 910** |

# Notes to the Annual Financial Statements

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

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

**Pension and Medical Aid Deductions**

| | | |
|---|---|---|
| Current year subscription / fee | 4 740 892 | 5 090 214 |
| Amount paid - current year | (4 740 892) | (5 090 214) |
| | - | - |

## 42. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and include as a note to the annual financial statements.

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

## 43. Deviations from SCM procedures (in terms of section 36) of Municipal

| | | |
|---|---|---|
| Opening balance | 7 511 124 | 3 315 171 |
| Add: SCM deviations during the year | 3 270 111 | 4 195 953 |
| | **10 781 235** | **7 511 124** |