

Audited Annual Financial Statements

for

ILEMBE DISTRICT MUNICIPALITY

As at 30 June 2017

Province:

KwaZulu Natal

AFS rounding:

R (i.e. only cents)

Contact Information:

**Name of Acting Municipal
Manager:**

Geoffrey Kumalo

**Name of Acting Chief
Financial Officer:**

Thembinkosi Shezi

Contact telephone number:

032 437 9503

Contact e-mail address:

thembinkosi.shezi@ilembe.gov.za

**Name of contact at provincial
treasury:**

Nokuthula Ndlovu

Contact telephone number:

033 897 4376

Contact e-mail address:

nokuthula.chamane@kzntreasury.gov.za

Name of relevant Auditor:

Thavaloshnan Peruma

Contact telephone number:

033 264 7400

Contact e-mail address:

ThavaloshnanP@aqsa.co.za

***Name of contact at National
Treasury:***

Matsie Sehlapelo

Contact telephone number:

012 315 5295

Contact e-mail address:

Matsie.Sehlapelo@treasury.gov.za

ILEMBE DISTRICT MUNICIPALITY
AUDITED ANNUAL FINANCIAL STATEMENTS
As at 30 June 2017

General information

Legal Form of Entity	Municipality
Nature of Business and Principal Activities	Medium Capacity, Category C, District Municipality
His Worship, Councillor Siduduzo Siegsried Gumede	Mayor
Councillor Lucky Regionald Makhathini	Speaker
Councillor Sandeep Oudhram	Member of the Executive Committee
Councillor Musawenkosi Aubrey Maphumulo	Member of the Executive Committee
Councillor Monitha Dolly Shandu	Member of the Executive Committee
Councillor Aubrey Mtolo Baardman	Member of the Executive Committee
Councillor Andrew Gopaul	Member of the Executive Committee
Councillor Malcolm William Hubner	<i>Member</i>
Councillor Maureen Zola Mhlongo	<i>Member</i>
Councillor Sibongile Florence Ntuli	<i>Member</i>
Councillor Catherine Tholakele Khumalo	<i>Member</i>
Councillor Makhosini Desmond Mpofo	<i>Member</i>
Councillor Ntombenhle Cynthia Nene	<i>Member</i>
Councillor Musawenkosi Simeon Ntuli	<i>Member</i>
Councillor Madhum S Singh	<i>Member</i>
Councillor Innocent Ndumiso Vilakazi	<i>Member</i>
Councillor Muzi Emmanuel Ngidi	<i>Member</i>
Councillor Innocentia Phumelele Dube	<i>Member</i>
Councillor Radiwaath Singh	<i>Member</i>
Councillor Mavis Sdudla Mhlongo	<i>Member</i>
Councillor James Gabangani Van Whye	<i>Member</i>
Councillor Philemon Sboniso Goba	<i>Member</i>
Councillor Mamazane Veronica Shezi	<i>Member</i>
Councillor Silindile Zondi	<i>Member</i>
Councillor TS Jali	<i>Member</i>
Councillor Happiness Nonhlanhla Ngcobo	<i>Member</i>
Councillor Nkanyiso Brightman Hlongwa	<i>Member</i>
Councillor Msawenkosi Lindokuhle Ngidi	<i>Member</i>
Councillor Andile Mazwi Gwala	<i>Member</i>
Councillor Malindi Virginia Mhlongo	<i>Member</i>
Councillor Gloria Nompumelelo	<i>Member</i>
Councillor David Mthokozisi	<i>Member</i>
Accounting Officer	NG Kumalo - Acting Municipal Manager from August 2017
Chief Financial Officer	Thembinkosi Shezi - Acting from 1 June 2017
Grading of Local Authority	Five
Auditors	The Auditor-General, South Africa
Bankers	First National Bank

**ILEMBE DISTRICT MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
As at 30 June 2017**

General information (continued)

	Ilembe House
Physical address:	Ilembe House 59/61 Mahatma Gandhi Street KWADUKUZA 4450
Postal address:	P.O Box 1788 KWADUKUZA 4450
Telephone number:	032 437 9300
Fax number:	032 437 9584
E-mail address:	admin@ilembe.gov.za

**ILEMBE DISTRICT MUNICIPALITY
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General information (continued)

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Approval of annual financial statements

I am responsible for the preparation of these annual financial statements, which are set out on pages 5 to 50, 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, and payments made to Councillors for loss of office, if any, as disclosed in note 24 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.



Municipal Manager:

NG Kumalo

Date: 29/11/2017

**ILEMBE DISTRICT MUNICIPALITY
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ILEMBE DISTRICT MUNICIPALITY
STATEMENT OF FINANCIAL POSITION
As at 30 June 2017

	Note	2017 R	2016 R
ASSETS			
Current Assets			
Cash and cash equivalents	3	5 766 622	35 916 287
Trade and other receivables from exchange transactions	2	96 827 171	106 447 234
Trade and other receivables from non exchange transactions	4	27 423 456	147 005 337
Inventories	6	13 020 058	10 609 260
Total current assets		143 037 306	299 978 119
Non-current assets			
Non-current receivables	7	20 632	35 314
Long term Investments	8	25 809 873	24 419 710
Other non-current financial assets	5	100	100
Property, plant and equipment	10	2 234 604 509	1 962 775 643
Intangible assets	12	5 325 083	5 371 579
Heritage Assets	11	205 578	205 578
Total non-current assets		2 265 965 774	1 992 807 924
Total assets		2 409 003 081	2 292 786 043
LIABILITIES			
Current liabilities			
Trade and other payables from exchange transactions	13	234 300 057	344 972 698
Trade and other payables from non - exchange transactions	14	962 942	4 487 483
Current portion of borrowings	15	5 475 551	6 136 403
Current portion of finance lease liability	16	14 124 319	15 463 776
Current portion of employee benefits	37	494 551	1 014 311
Total current current liabilities		255 357 421	372 074 671
Non-current liabilities			
Non-current borrowings	15	79 373 305	78 475 085
Non-current finance lease liability	16	-	7 980 147
Employee benefits	37	7 764 215	6 962 850
Total non-current liabilities		87 137 520	93 418 081
Total liabilities		342 494 941	465 492 752
Net assets		2 066 508 140	1 827 293 293
NET ASSETS			
Accumulated surplus		2 066 508 140	1 827 293 293
Total net assets		2 066 508 140	1 827 293 293

ILEMBE DISTRICT MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE
As at 30 June 2017

	Note	2017 R	2016 R
Revenue from exchange transactions		167 774 229	178 581 266
Service charges	17	136 637 461	145 147 918
Rental of facilities and equipment	18	13 244	14 221
Interest earned - external investments	19	2 854 791	4 768 538
Interest earned - outstanding receivables	20	18 997 572	18 195 506
Other income	22	9 271 161	10 455 083
Revenue from non exchange transactions		762 531 580	902 930 856
Government grants and subsidies	21	762 531 580	902 930 856
Total revenue		930 305 808	1 081 512 122
Expenses			
Employee related costs	23	173 684 174	162 976 730
Remuneration of councillors	24	8 020 646	9 713 898
Bad debts	2	40 241 279	97 678 134
Depreciation, impairment and amortisation	25	87 979 450	69 680 117
Repairs and maintenance	30.1	31 042 332	13 807 914
Finance costs	26	9 976 764	8 447 809
Bulk purchases	27	75 803 000	62 752 475
Contracted services	28	52 146 813	97 468 367
General expenses	30	120 962 391	137 657 249
Total expenses		599 856 849	660 182 693
Gain / (loss) on sale of assets	22	(20 314)	(1 127 527)
Forex gain/(loss)	40	78 248	(422 371)
Surplus / (deficit) for the period		330 506 893	419 779 530

ILEMBE DISTRICT MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS
As at 30 June 2017

Note	IDM Accumulated Surplus/(Deficit) Total
	R
Balance at 30 June 2015	1 410 832 705
Prior year adjustments	31 (3 318 943)
Restated balance	1 407 513 762
Surplus / (deficit) for the year	419 779 530
Balance at 30 June 2016, as previously reported	<u>1 827 293 292</u>
Opening Balance, 1 July 2016	1 827 293 292
Correction of prior period errors	31 (90 604 710)
Prior year adjustments	31.1 (687 256)
Restated balance	<u>1 736 001 326</u>
Transfers to / from accumulated surplus/(deficit)	(79)
Surplus / (deficit) for the year	330 506 893
Balance at 30 June 2017	<u>2 066 508 140</u>

ILEMBE DISTRICT MUNICIPALITY
CASH FLOW STATEMENT
As at 30 June 2017

	Note	IDM 2017 R	IDM 2016 R
Receipts		<u>880 802 126</u>	<u>917 600 154</u>
Sales of goods and services		113 884 228	90 743 417
Grants		766 917 898	826 856 736
Payments		<u>(518 202 039)</u>	<u>(302 444 339)</u>
Employee costs		179 773 639	170 665 565
Suppliers		338 428 401	131 778 773
CASH GENERATED FROM OPERATIONS	32	<u>362 600 086</u>	<u>615 155 815</u>
Interest received		2 854 791	4 768 538
Interest paid	26	(9 976 764)	(8 447 809)
Net cash flows from operating activities		<u>355 478 113</u>	<u>611 476 544</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets (PPE)		(356 957 612)	(581 751 685)
Proceeds from sale of fixed assets		198 862	910 864
Increase in investments		(1 390 163)	(1 437 287)
Purchase of intangibles	12	(1 884 400)	(2 433 870)
Net cash flows from investing activities		<u>(360 033 312)</u>	<u>(584 711 978)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(3 665 526)	(6 770 955)
Repayment of finance lease liability		(21 928 940)	(15 940 421)
Net cash flows from financing activities		<u>(25 594 466)</u>	<u>(22 711 377)</u>
Net increase / (decrease) in net cash and cash equivalents		(30 149 664)	4 053 190
Net cash and cash equivalents at beginning of period		35 916 286	31 863 096
Net cash and cash equivalents at end of period	33	<u>5 766 622</u>	<u>35 916 286</u>

ILEMBE DISTRICT MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
As at 30 June 2017

Description	Original Budget	Budget Adjustments (i.t.o. s28 & s31 Of The MFMA)		Virement (Council Approved By-law)	Final Budget	Actual Income/ Expenditure	Variance	% Variance	Explanation of variances +/-10%
		1	2						
Service Charges	138 774 740	151 004 431	-1 347 881.70	149 656 550	136 637 461	-13 019 088	-9%	Accept the variance as immaterial	
Investment Revenue	3 407 129	3 407 129.00	0.00	3 407 129	2 854 791	-552 338	-16%	Variance attributable to higher budget compared to actual interest earned, mostly due to low cash balance.	
Transfers Recognised - Operational	396 961 000	390 530 676	0.00	390 530 676	364 201 017	-26 329 659	-7%	Accept the variance as immaterial	
Other Own Revenue	32 107 087	30 615 682	0.00	28 939 900	28 281 976	-657 924	-2%	Accept the variance as immaterial	
Total Revenue (Excluding Capital Transfers)	571 249 957	575 557 919	-1 347 881.70	572 534 255	531 975 246	-40 559 009			
Employee Costs	168 578 862	173 762 487	2 512 067.94	176 274 555	173 684 174	-2 590 380	-1%	Accept the variance as immaterial	
Remuneration Of Councilors	10 406 858	10 406 858.00	-2 251 162.35	8 155 696	8 020 646	-135 050	-2%	Accept the variance as immaterial	
Debt Impairment	55 763 382	41 465 645	0.00	41 465 645	40 241 279	-1 224 366	-3%	Accept the variance as immaterial The condition assessment as well as the physical verification conducted on municipal infrastructural assets revealed that the current status of certain assets is worse than it had been anticipated during the budget process. This is mainly attributable to the ageing of infrastructure as well as human acts of vandalism on 23% sites that are presently not guarded.	
Depreciation & Asset Impairment	64 513 296	71 289 629	0.00	71 289 629	87 979 450	16 689 821		Furthermore, the 2016/17 budget was prepared under severely constrained financial status resulting in certain expenditure items having no sufficient budget provision as they would ordinarily have.	
Finance Charges	8 124 832	12 310 314.77	-1 566 861.80	10 743 453	9 976 764	-766 689	-7%	Accept the variance as immaterial	
Bulk Purchases	74 317 843	74 317 843.00	0.00	74 317 843	75 803 000	1 485 157	2%	Accept the variance as immaterial	
Other materials	41 074 025	51 030 902.77	1 550 370.51	52 581 273	31 042 332	-21 538 941	-41%	Variance attributable to austerity measures due to constraint during the budget process.	

Description	Original Budget	Budget Adjustments (i.t.o. s28 & s31 Of The MFMA)	Virement (Council Approved By-law)	Final Budget	Actual Income/ Expenditure	Variance	% Variance	Explanation of variances +/-10%
Contracted Services	49 545 060	49 847 907.44	-1 853 769.14	47 994 138	52 146 813	4 152 674		Variance attributable to various items, additional guards were required to various schemes to avoid vandalism of infrastructure.
Other Expenditures	89 488 595	91 144 042.99	373 391.82	91 517 435	120 962 391	29 444 957		Variance within range.
Total Expenditure	561 812 752	575 575 629.73	-1 235 963.02	574 339 667	599 856 849	25 517 183	32%	
Surplus/(Deficit)	9 437 205	-17 711.09	-111 918.68	-1 805 412	-67 881 604	-66 076 192		
Transfers Recognised - Capital	234 234 000	253 249 980.08	-	253 249 980	273 238 048	19 988 068		8% Variance within range.
Contributions Recognised - Capital & Contributed Assets	128 094 000	98 094 000.00	-	98 094 000	125 092 515	26 998 515		28% As per explanation on public contributions & donations.
Surplus/(Deficit) After Capital Transfers & Contributions	371 765 205	351 326 268.99	-111 918.68	349 538 568	330 448 959	-19 089 609		
Profit/(Loss)						0		
Surplus/(Deficit) For The Year	371 765 205	351 326 268.99	-111 918.68	349 538 568	330 448 959	-19 089 609		
Capital Expenditure & Funds Sources								
Transfers Recognised - Capital	209 954 387	222 149 103.66	-	222 149 104	239 682 498	17 533 395	8%	Accept variance as immaterial This expenditure relates to the implementation of Lower Thukela Bulk Water Supply Scheme (LTBWSS) which is funded through the RBIG from the Department of Water and Sanitation. The initial allocation for the 2016/17 financial year was R156mil and was later cut back to R140mil. The cut back was factored in the adjustment budget, however at the time the cut back was implemented commitments in terms of expenditure were already made (on the basis of R156mil) and thereby making it not easy to cut down on certain projects within the LTBWSS
Public Contributions & Donations	112 509 990	86 047 368.15	-	86 047 368	109 730 276	23 682 908		The under-spending is attributable to implementation of the austerity measures. The smart meters project was put on hold until further notice.
Internally Generated Funds	25 435 000	18 127 889.00	-	18 127 889	12 956 850	-5 171 039		
Total Sources Of Capital Funds	347 899 377	326 324 360.81	-	326 324 361	362 369 624	36 045 263		

1 BASIS OF PREPARATION

1.1 STATEMENT OF COMPLIANCE

These annual financial statements have been prepared in accordance with the effective South African Standards of Generally Recognised Accounting Practice (GRAP), as approved by the Minister of Finance, including any interpretations and directives issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

1.2 BASIS OF MEASUREMENT

The annual financial statements have been prepared on the accrual basis except for the following material item in the statement of financial position:

the defined benefit liability is recognised as the net total of the plan assets, plus unrecognised past service cost and unrecognised actuarial losses, less unrecognised actuarial gains and the present value of the defined benefit obligation.

1.3 FUNCTIONAL AND PRESENTATION CURRENCY

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality. All financial information has been rounded to the nearest Rand.

1.4 OFFSETTING

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the municipality has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Revenue and expenses have not been offset except when offsetting is required or permitted by a standard of GRAP.

1.5 GOING CONCERN ASSUMPTION

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

1.6 USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with GRAP requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts assets and liabilities, income, expenses and other reports. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future.

Post-Retirement Benefits and Multi-Employer Retirement Benefit Plans

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

The Municipality determines the appropriate discount rate at the end of each year using the actuarial valuation. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Municipality considers the interest rates that best approximated by reference to market yields at the reporting date on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumption for pension obligation are based on current market conditions. Additional information is disclosed in notes. The Municipality contributes to Natal Joint Super Annuation and Retirement Funds which are Defined Benefit Funds. The Municipality's liability in these funds could not be determined owing to the fact that the assets are not being allocated to each employer and only one set of financial statement are compiled for each fund not per employer. Further details of this plan is included in the notes to the Financial Statements.

Provision for impairment of trade receivables

The provision for impairment is measured as the difference between the assets' carrying amount and the present value of estimated recoverable future cash flow based on past recovery trends.

Non-cash generating and cash generating Impairment testing

Management used the fair value less cost to sell to determine the recoverable amount of assets with an indefinite useful life and identifying assets that may have been impaired. Additional disclosure of these estimates is included in note – Impairment of assets
All assets owned/recognised by the municipality are held for the provision of basic service and are considered to be non-cash generated assets

Provision

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provision are included in notes to Financial Statements.

Provision are measured at the head of department's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

A provision is recognised when:

The municipality has a present obligation (legal or constructive) as a result of a past event;

It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and

A reliable estimate can be made of the obligation.

1.7 COMPARATIVE INFORMATION

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. The municipality shall present a comparison of budget and actual amounts as additional budget columns in the primary financial statements only where the financial statements and the budget are prepared on a comparable basis. All comparisons of budget and actual amounts shall be presented on a comparable basis to the budget. The municipality shall explain in notes to the financial statements the budgetary basis and classification basis adopted in the approved budget (refer note 1.10).

1.8 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality. Application of all of the GRAP standards noted below will be effective from a date to be announced by the Minister of Finance. The effective dates are currently unknown.

GRAP 18 Segment Reporting
GRAP 20 Related Party Disclosures
GRAP 32 Service Concession Arrangements (Grantor)
GRAP 34 Separate Financial
GRAP 36 Investments in Associates
GRAP 37 Joint Arrangements
GRAP 38 Disclosure of Interest in other Entities
GRAP 108 Statutory Debtors
GRAP 109 Standard of GRAP on Accounting by Principals
GRAP 110 Living and Non living Resources

ILEMBE DISTRICT MUNICIPALITY
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
As at 30 June 2017

1.9 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED AND EFFECTIVE

The Minsiter has determined the following GRAP standards as approved effective:

GRAP 1 Presentation of Financial Statements
GRAP 2 Cash Flow Statements
GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4 The Effects of Changes in Foreign Exchange Rates
GRAP 5 Borrowing Costs
GRAP 6 Consolidated and Separate Financial Statements
GRAP 7 Investments in Associates
GRAP 8 Interest in Joint Ventures
GRAP 9 Revenue from Exchange Transactions
GRAP 10 Financial Reporting in Hyperinflationary Economies
GRAP 11 Construction Contracts
GRAP 12 Inventories
GRAP 13 Leases
GRAP 14 Events After the Reporting Date
GRAP 15 Investment Property
GRAP 17 Property Plant and Equipment
GRAP 18 Segment Reporting
GRAP 19 Provisions, Contingent Liabilities and Contingent Assets
GRAP 21 Impairment of Non-cash-generating Assets
GRAP 23 Revenue from Non-exchange Transactions (Taxes and Transfers)
GRAP 24 Presentation of Budget Information in Financial Statements
GRAP 25 Employee Benefits
GRAP 26 Impairment of Cash-generating assets
GRAP 27 Agriculture
GRAP 31 Intangible Assets
GRAP 100 Discontinued Operations
GRAP 103 Heritage Assets
GRAP 104 Financial Instruments
GRAP 105 - Transfer of Functions Between Entities Under Common Control
GRAP 106 Transfer of Functions Between Entities Not Under Common Control
GRAP 107 Mergers

Interpretations of the standard of GRAP Approved and effective

IGRAP1 Applying The Probability Test On Initial Recognition Of Revenue
IGRAP2 Changes in Existing Decommissioning Restoration and Similar Liabilities
IGRAP3 Determining Whether an Arrangement Contains a Lease
IGRAP 4 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IGRAP5 Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies
IGRAP6 Loyalty Programmes
IGRAP7 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IGRAP 8 Agreements for the Construction of Assets from Exchange Transactions
IGRAP 9 Distributions of Non-cash Assets to Owners
IGRAP10 Assets Received from Customers
IGRAP11 Consolidation - Special Purpose Entities
IGRAP12 Jointly Controlled Entities - Non-Monetary Contributions
IGRAP13 Operating Leases - Incentives
IGRAP14 Evaluating the Substance of Transactions Involving the Legal Form of a Lease
IGRAP15 Revenue - Barter Transactions Involving Advertising Services
IGRAP16 Intangible Assets - Website Costs

Interpretations of the standard of GRAP Approved and not yet effective

IGRAP17 Interpretation of the Standard of GRAP on Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset
IGRAP18 Interpretation of the Standard of GRAP on Recognition and Derecognition of Land
IGRAP19 Liabilities to Pay Levies

1.10 PRESENTATION OF BUDGET INFORMATION IN THE FINANCIAL STATEMENTS

The budget is mainly approved on a cash basis by functional classification. The approved budget covers the period from 1 July 2016 to 30 June 2017. The budget and accounting bases for some votes differ. The financial statements are prepared on the accrual basis using a classification on the nature of expenses in the statement of financial performance. The financial statements differ from the budget, which is approved on the cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by functional classification to be on the same basis as the final approved budget. The amounts of these adjustments are identified in note 41. A reconciliation between the actual amounts on a comparable basis as presented in the statement of comparison of budget and actual amounts and the actual amounts in the cash flow statement for the period ended 30 June 2017 is presented in note 41. The financial statements and budget documents are prepared for the same period. There is a basis difference: the budget is mainly prepared on a cash basis and the financial statements on the accrual basis. The reconciliation as required by GRAP 24 is also shown in note 41. The statement of comparison of budget and actual amounts is disclosed as a statement in the annual financial statements.

Differences between budget and actual amounts are regarded as material when a more than 10% variance exists.

All material differences are explained in the notes to the annual financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies had been applied consistently during the current and previous reporting period, as set out in note 1.2

2.1 PROPERTY, PLANT AND EQUIPMENT

2.1.1 INITIAL RECOGNITION

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located

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

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

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

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

2.1.2 SUBSEQUENT MEASUREMENT - COST MODEL

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

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

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2.1.3 DEPRECIATION AND IMPAIRMENT

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

Depreciation commences when an asset is available for use and ceases at the earlier of the date that the asset is derecognised or classified as held for sale in accordance with GRAP 100 Non-current assets held for sale and discontinued operations. A non-current asset or disposal group is not depreciated while it is classified as held for sale.

Heritage assets and land are not depreciated.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the municipality will obtain ownership by the end of the lease term.

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

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

Infrastructure	Years	Other	Years
Water	10 - 60	Machinery and equipment	3 - 20
Sewerage	10 - 60	Furniture and equipment	3 - 50
Other	10 - 50	Motor vehicles	4 - 20

An entity shall assess at each reporting date whether there is an indication that the entity's expectations about the residual value and useful life of an asset have changed since the preceding reporting date. If any such indication exists, the entity shall revise the expected useful life and/or residual value accordingly. No longer a requirement to review residual values and useful lives each year.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance - refer to note 19 for further information on impairment of assets.

2.1.4 DERECOGNITION

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

2.1.5 LEASED ASSETS

Leases in terms of which the municipality assumes substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases. Upon initial recognition of assets leased under finance leases, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

3 INTANGIBLE ASSETS

3.1 INITIAL RECOGNITION

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

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

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

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

3.2 SUBSEQUENT MEASUREMENT - COST MODEL

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

3.3 AMORTISATION AND IMPAIRMENT

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software and websites 2 - 5 Years

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date - refer to note 19 for further information on impairment of assets. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

3.4 DERECOGNITION

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

4 HERITAGE ASSETS

4.1 INITIAL RECOGNITION AND MEASUREMENT

Heritage assets are assets that are normally held indefinitely for their unique cultural, environmental, historical, natural, scientific, technological or artistic significance for the benefit of future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

Heritage assets are recognised as an asset when

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

If the municipality holds an asset that might be regarded as a heritage asset, but on initial recognition, the asset does not meet the above recognition criteria because it cannot be measured reliably, relevant and useful information about the heritage asset is disclosed in the notes to the financial statements.

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4.2 SUBSEQUENT MEASUREMENT - COST MODEL

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

4.3 DEPRECIATION & IMPAIRMENT

Heritage assets are not depreciated. The municipality assesses at each reporting date whether there is any indication that a heritage asset may be impaired - refer to note 18 for further information on impairment of assets.

In assessing whether there is an indication that an asset may be impaired, the municipality considers, as a minimum, the following indications:

4.3.1 External sources of information

- (a) During the period, a heritage asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
- (b) The absence of an active market for a revalued heritage asset.

4.3.2 Internal sources of information

- (a) Evidence is available of physical damage or deterioration of a heritage asset.
- (b) A decision to halt the construction of the heritage asset before it is complete or in a usable form.

4.4 DERECOGNITION

The carrying amount of a heritage asset is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amounts of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

5 INVENTORIES

5.1 INITIAL RECOGNITION

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

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

5.2 SUBSEQUENT MEASUREMENT

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

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

The basis of allocating cost to inventory items is the weighted average method.

5.3 WATER INVENTORY

Water inventory represents water housed in reservoirs within the municipal area and is measured at the lower of cost, which is deemed to be fair value, and net realisable value. In the absence of a market that trades in water outside of local government, the fair value utilised to quantify water inventory is based on the unit reference value. The unit reference value is determined by a formula that is utilised in the engineering department to calculate the development cost of new water resources.

Readings of water levels are taken at year-end, which is quantified at the above fair value.

Water and purified effluent are measured at the lowest of purified cost and net realisable value insofar as it is stored and controlled in reservoirs at year-end.

6 INVESTMENTS IN CONTROLLED ENTITIES

In the municipality's separate annual financial statements, investments in controlled entities are measured at cost.

7 FINANCIAL INSTRUMENTS

7.1 INITIAL RECOGNITION

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

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

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

Financial instruments are initially recognised when the municipality becomes a party to the contractual provisions. Financial assets are recognised using trade date accounting.

7.2 INITIAL MEASUREMENT

Financial instruments are initially measured at fair value plus transaction costs for financial instruments at amortised cost or cost. Fair value is usually the transaction cost at the date of recognition. For financial instruments at amortised cost, if the transaction cost is not market related i.e. no interest is charged for deferred payments or when the account is overdue, or interest charged is at below-market related rate: the municipality determines the fair value. The fair value is the present value of the expected future cash flows, without taking into account any future losses or the possibility of default, discounted using a market related interest rate, adjusted for credit risk over the expected life of the financial instrument. For financial instruments at fair value, the fair value is determined based on quoted prices in an active market. If there is no active market, it is determined using valuation techniques. For financial instruments at cost, the financial instrument is only measured at cost if the fair value can not be measured reliably. Where a financial instrument contains both a liability and a residual interest component, the municipality allocates the instrument into its component parts. The municipality recognises the liability at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its components.

7.3 SUBSEQUENT MEASUREMENT

Financial assets and liabilities are subsequently measured either at fair value, or amortised cost or cost using the following categories:

- (a) Financial instruments at fair value
- (b) Financial instruments at amortised cost
- (c) Financial instruments at cost

7.3.1 FINANCIAL INSTRUMENTS AT FAIR VALUE

Financial instruments at fair value comprise financial assets or financial liabilities that are derivatives, combined instruments that are designated at fair value, instruments held for trading, financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost and non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition. Financial instrument at fair value are subsequently measured at fair value with changes in fair value recognised in surplus or deficit.

7.3.2 FINANCIAL INSTRUMENTS AT AMORTISED COST

Financial instruments at amortised cost, are non-derivative financial assets or financial liabilities that have fixed or determinable payments, excluding those the municipality designates at fair value at initial recognition or are held for trading. Financial instruments at amortised cost are subsequently measured at amortised cost using effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated cash flows associated with the financial instrument through the expected life of the instrument (or in some cases a shorter period) to the net carrying amount at initial recognition. Financial assets are subject to annual impairment review. Refer to note 7.6 for details on impairment and uncollectability of financial assets.

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7.3.3 FINANCIAL INSTRUMENTS AT COST

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured. Financial instruments at cost are subsequently measured at cost if the fair value cannot be reliably determined. Financial assets are subject to annual impairment review. Refer to note 7.6 for details on impairment and uncollectability of financial assets.

7.4 RECLASSIFICATIONS

The municipality does not reclassify a financial instrument when it is issued or held, except for a combined instrument that is required to be measured at fair value or an investment in residual interest subject to certain requirements.

7.5 GAINS AND LOSSES

Gains and losses on fair value measurements, reclassifications, impairment, derecognition are recognised in surplus or deficit.

7.6 IMPAIRMENT AND UNCOLLECTABILITY OF FINANCIAL ASSETS

Financial assets are subject to annual impairment review as follows:

7.6.1 FINANCIAL ASSETS AT AMORTISED COST

For financial assets at amortised cost, the municipality assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on a financial asset has been incurred, the loss is recognised in surplus or deficit. The municipality assesses financial assets individually, when assets are individually significant, and individually or collectively for financial assets that are not individually significant. Where no objective evidence of impairment exists for an individually assessed asset, (whether individually significant or not), an entity includes the assets in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. The impairment loss is the difference between the carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The impairment loss is recognised in surplus or deficit by reducing the carrying amount either directly or through the use of an allowance account. If, in a period after an impairment loss has been recognised, events occur or circumstances change that indicate that the impairment loss recognised in a previous period should be reversed, the municipality reverses the impairment loss previously recognised either directly or by adjusting an allowance account.

7.6.2 FINANCIAL ASSETS AT COST

For financial assets at cost, the municipality assesses whether there is any objective evidence that a financial asset is impaired. If there is objective evidence that an impairment loss on a financial asset has been incurred, the loss is recognised in surplus or deficit. The impairment loss is the difference between the carrying amount and the present value of estimated future cash flow discounted at the current market rate of return for similar financial assets. The impairment loss is recognised in surplus or deficit by reducing the carrying amount directly. The impairment loss is never reversed in subsequent periods.

7.7 DERECOGNITION

7.7.1 FINANCIAL ASSETS

The municipality derecognises financial assets using trade date accounting. The municipality derecognises a financial asset only when:

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

7.7.2 FINANCIAL LIABILITIES

The municipality removes a financial liability from its statement of financial position when, and only, it is extinguished. A financial liability is extinguished when the debtor either:

- (a) Discharges the liability by paying the creditor, normally with cash, other financial liabilities, goods or services.
 - (b) Is legally released from primary responsibility for the liability either by process (expires) of law or by the creditor (cancelled). If the debtor has given a guarantee, this condition may still be met.
 - (c) Waives the debt or it is assumed by another municipality by way of a non-exchange transaction.
- Interest, dividends or similar distributions, losses and gains relating to a financial instrument or a component that is a financial liability should be recognised as revenue or expense in surplus or deficit. A financial asset and a financial liability should be offset and the net amount presented in the statement of financial position when and when, the municipality:
- (i) Currently has a legally enforceable right to set off the recognised amounts; and
 - (ii) Intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously

8 FOREIGN CURRENCY TRANSACTION

Transactions in foreign currencies are translated to the functional currency of the municipality at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in surplus or deficit, except for differences arising on the retranslation of available-for-sale financial instruments, which are recognised in net assets.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Cash flows arising from transactions in a foreign currency are recorded in Rands by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

9 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is defined in section 1 of the MFMA as follows:

"unauthorised expenditure", in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3), and includes—

- (a) overspending of the total amount appropriated in the municipality's approved budget;
- (b) overspending of the total amount appropriated for a vote in the approved budget;
- (c) expenditure from a vote unrelated to the department or functional area covered by the vote;
- (d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- (e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
- (f) a grant by the municipality otherwise than in accordance with this Act.

9.1 IDENTIFICATION AND INTERNAL REPORTING

Unauthorised expenditure is identified through the municipality's financial system application controls. On identification of the unauthorised expenditure due to overspending on specific votes, the relevant Head of department is notified, where funds are available on other votes within the directorate, virements are made within the provisions of the virement policy. If after the provisions of the virement policy are applied, the unauthorised expenditure still remains/exist, it is recorded in the unauthorised expenditure register and reported to the accounting officer, mayor and council in terms of MFMA section 32.

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13 LEASES

13.1 MUNICIPALITY AS LESSEE

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are accrued on a straight-line basis over the term of the relevant lease.

13.2 MUNICIPALITY AS LESSOR

Under a finance lease, the municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to derecognition and impairment of financial instruments are applied to lease receivables.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.
The tariff in respect of sewerage is based on the value of consumption used from one point of meter supply.

14 REVENUE

14.1 REVENUE FROM EXCHANGE TRANSACTIONS

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Service charges relating to water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. Further adjustments are made to take into account staggered tariffs where applicable. The estimates of consumption between meter readings are based on 6 months average reading history.

Service charges from sewerage and sanitation are based on the value of consumption used from one point of meter supply and this is set out in the tariffs of charges approved by Council.

Revenue from the sale of water prepaid meter cards is recognized based on consumption except where a reliable estimate cannot be made after every reasonable effort to gather appropriate information had been made. In these instances, revenue is recognized at the point of sale.

Interest revenue is recognised on a time proportion basis.

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

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods is passed to the consumer.

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

14.2 REVENUE FROM NON - EXCHANGE TRANSACTIONS

Revenue from non-exchange transactions are transactions where the municipality receives revenue and provide no or a nominal consideration directly in return.

A transaction can be a combination of exchange and non-exchange transactions. In these instances the municipality determines what portion of the transaction is an exchange transaction and what portion is a non-exchange transaction and then recognise it separately.

Most non-exchange transactions that the municipality enters into involve stipulations on transferred assets are in terms in laws or regulations, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the municipality. Stipulations can either be in the form of conditions or in the form of restrictions. For both conditions and restrictions the municipality may be required to use the transferred asset for a particular purpose. The municipality uses substance over form to determine whether a stipulation is a condition or restriction.

14.3 RECOGNITION

An inflow of resources from a non-exchange transaction, other than services in-kind, that meets the definition of an asset are recognised as an asset when all of the following criteria have been satisfied

- (a) When the resource is controlled by the entity as a result of a past event;
- (b) It is probable that the future economic benefits or service potential associated with the resource will flow to the municipality; and
- (c) The fair value of the resource can be measured reliably.

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

Liabilities are recognised for conditions to be met which is attached to the transferred asset. The liability is discharged and revenue recognised as the conditions are satisfied.

The municipality does not recognise service in - kind.

The municipality recognises revenue from vat refunds on cash basis.

14.4 MEASUREMENT

Non-monetary assets such as property, plant and equipment, investment property and inventory, acquired through a non-exchange transaction, are initially measured at its fair value on acquisition date.

Monetary assets arising out of a contractual agreement, such as cash and receivables, are initially measured at fair value on acquisition date.
Revenue is measured at the amount equal to the increase in net assets (i.e. the net effect).

The amount recognised as a liability is the best estimate of the amount required to settle the present obligation at the reporting date.
Revenue from vat refunds is measured at gross amounts.

15 BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

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TRADE AND OTHER RECEIVABLES FROM 2 EXCHANGE TRANSACTIONS	Gross Balances R	Provision for Bad debts	Net Balance
<u>Trade receivables</u>			
As at 30 June 2017			
Service debtors			
Water and Sewerage	229 180 297	144 325 200	84 855 096
Direct Payments	(875 772)	-	(875 772)
Total	228 304 525	144 325 200	83 979 325
<u>Other Receivables</u>			
Umngeni water debtor	67 122	-	67 122
Accrued interest	291	-	291
Ilembe Enterprise	-	-	-
Outstanding deposits	868 962	-	868 962
Sundry Debtors	4 151 851	-	4 151 851
Other debtors	6 446 558	-	6 446 558
RD Cheques	-	-	-
Sundry Debtors - F/W Expenditure	538 879	533 864	5 015
Acknowledgement of debt	209 513	-	209 513
Vat receivable	1 098 535	-	1 098 535
Total other Receivables	13 381 710	533 864	12 847 846

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

Total Trade and other receivables	241 686 235	144 859 064	96 827 171
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as at June 2016

Service debtors			
Water and Sewerage	211 612 744	132 316 623	79 296 120
Direct Deposits	(1 368 375)	-	(1 368 375)
Total	210 244 368	132 316 623	77 927 745

Other receivables

Umngeni water debtor	2 506 818	-	2 506 818
Accrued interest	85 572	-	85 572
Ilembe Enterprise	-	-	-
Outstanding deposits	2 248 647	-	2 248 647
Sundry Debtors	1 955 300	-	1 955 300
Other debtors	5 166 323	-	5 166 323
RD Cheques	-	-	-
Sundry Debtors - F/W Expenditure	25 765	20 750	5 015
Acknowledgement of debt	525 423	-	525 423
Vat receivable	16 026 392	-	16 026 392
Other receivables	28 540 239	20 750	28 519 489

Total Trade and other receivables	238 784 608	132 337 373	106 447 234
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Summary of Debtors by Customer Classification

	Residential R	Industrial/Comm ercial R	National and Provincial Government R
As at 30 June 2017			
Current (0 – 30 days)	6 657 275	1 809 961	2 372 573
31 - 60 Days	6 485 981	520 036	927 292
61 - 90 Days	6 253 168	269 574	773 444
91 - 120 Days	6 087 848	211 925	520 826
121 - 365 Days	6 185 592	190 011	543 909
+ 365 Days	190 180 557	3 078 484	17 969 308
Sub-total	221 850 420	6 079 990	23 107 352
Less: Provision for doubtful debts	(144 325 200)	-	-
Total debtors by customer classification	77 525 220	6 079 990	23 107 352

at 30 June 2016

Current (0 – 30 days)	9 493 628	1 381 173	2 988 797
31 - 60 Days	6 042 035	638 174	2 366 731
61 - 90 Days	6 675 022	2 276 992	1 867 850
91 - 120 Days	6 326 705	131 538	-312 006
121 - 365 Days	7 093 896	254 314	1 653 334
+ 365 Days	146 064 061	1 464 878	15 225 621
Sub-total	181 695 347	6 147 070	23 770 327
Less: Provision for doubtful debts	(132 316 623)	-	-
Total debtors by customer classification	49 378 724	6 147 070	23 770 327

ILEMBE DISTRICT MUNICIPALITY
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As at 30 June 2017

	2017 R	2016 R
<u>Water and Sewerage: Ageing</u>		
Current (0 – 30 days)	10 839 809	13 843 597
31 - 60 Days	7 933 309	9 046 940
61 - 90 Days	7 296 186	10 819 864
91 - 120 Days	6 820 599	6 146 237
121 - 365 Days	6 919 511	9 001 545
+ 365 Days	189 370 883	162 754 560
Total	229 180 297	211 612 744

Reconciliation of the doubtful debt provision

Balance at beginning of the year	132 337 373	88 862 177
Contributions to provision	40 241 279	97 678 134
Bad debts recovered/ Consumer Accounts Adjustments	(1 242 920)	39 279 078
Doubtful debts written off against provision	(26 476 668)	(9 806 065)
Waiver of Debt (Mandeni) applied against the provision		(83 675 951)
Balance at end of year	144 859 064	132 337 373

3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

Petty cash and cash on hand	44 000	44 000
Bank statement balance	5 722 622	35 872 287
	5 766 622	35 916 287

The Municipality has the following bank accounts: -

Water Bank Account

ABSA Bank Account - Durban Branch
Account Number 4057878321 - Current Account

Cash book balance at beginning of year	(167 655)	1 428 369
Cash book balance at end of year	24 088	(167 655)
Bank statement balance at beginning of year	665 025	1 863 088
Bank statement balance at end of year	856 768	665 025

Salaries Bank Account

First National Bank - Durban Branch
Account Number 62006302385 - Current Account

Cash book balance at beginning of year	46 022	109 274
Cash book balance at end of year	(1 847 676)	46 022
Bank statement balance at beginning of year	46 022	109 404
Bank statement balance at end of year	32 506	46 022

Main Bank Account

First National Bank Account - Durban Branch
Account Number 50851211546 : Current Account

Cash book balance at beginning of year	(861 487)	7 509 528
Cash book balance at end of year	1 506 472	(861 487)
Bank statement balance at beginning of year	10 082	7 854 676
Bank statement balance at end of year	1 523 674	10 082

Revenue Bank Account

First National Bank - Durban Branch
Account Number 62409366722 : Current Account

Cash book balance at beginning of year	2 459 601	1 677 072
Cash book balance at end of year	1 243 347	2 459 601
Bank statement balance at beginning of year	912 060	1 747 075
Bank statement balance at end of year	414 843	912 060

Projects Bank Account

First National Bank - Durban Branch
Account Number 62046718641 - Current Account

Cash book balance at beginning of year	212 664	1 507 621
Cash book balance at end of year	91	212 664
Bank statement balance at beginning of year	34 002 174	1 507 621
Bank statement balance at end of year	51	34 002 174
Inter Bank Transfers	881 679	-

ILEMBE DISTRICT MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
As at 30 June 2017

	2017	2016
	R	R
<u>Investment Current Account</u>		
<i>ABSA Bank Account - Durban Branch</i>		
<i>Account Number 9114541258 : Call Account</i>		
Bank statement balance at the beginning of the year	1 180	111 679
Bank statement balance at the end of the year	1 134	1 180
<u>Investment Current Account</u>		
<i>ABSA Bank Account - Durban Branch</i>		
<i>Account Number 9183363524 : Call account</i>		
Bank statement balance at the beginning of the year	-	21 302
Bank statement balance at the end of the year	-	-
<u>Investment Current Account</u>		
<i>ABSA Bank Account - Durban Branch</i>		
<i>Account Number 9095950633 : Call Account</i>		
Bank statement balance at the beginning of the year	26	17 502
Bank statement balance at the end of the year	-	26
<u>Investment Current Account</u>		
<i>ABSA Bank Account - Durban Branch</i>		
<i>Account Number 9216956711 - Call Account</i>		
Bank statement balance at the beginning of the year	-	11 815
Bank statement balance at the end of the year	-	-
<u>Investment Current Account</u>		
<i>First National Bank Account - Durban Branch</i>		
<i>Account Number 61085067093 : Call Account</i>		
Bank statement balance at the beginning of the year	19	10 289 249
Bank statement balance at the end of the year	-	19
<u>Investment Current Account</u>		
<i>First National Bank Account - Durban Branch</i>		
<i>Account Number 74104346206 : Call Account</i>		
Bank statement balance at the beginning of the year	-	455 540
Bank statement balance at the end of the year	-	-
<u>Investment Current Account</u>		
<i>First National Bank Account - Durban Branch</i>		
<i>Account Number 74453548694 : Call Account</i>		
Bank statement balance at the beginning of the year	-	-
Bank statement balance at the end of the year	-	-
<u>Investment Current Account</u>		
<i>First National Bank</i>		
<i>Account Number 62313562309 : Call Account</i>		
Bank statement balance at the beginning of the year	-	7 626 776
Bank statement balance at the end of the year	2 011 967	-
<u>Investment Current Account</u>		
<i>First National Bank Account - Durban Branch</i>		
<i>Account Number 62129309937 : Call Account</i>		
Bank statement balance at the beginning of the year	-	1 222
Bank statement balance at the end of the year	-	-
<u>Investment Current Account</u>		
<i>Standard Bank Account - Durban Branch</i>		
<i>Account Number 293302 : Call Account</i>		
Bank statement balance at the beginning of the year	-	-
Bank statement balance at the end of the year	-	-
<u>Investment Current Account</u>		
<i>Investec Bank Account - Durban Branch</i>		
<i>Account Number 50003100564 : Call Account</i>		
Bank statement balance at the beginning of the year	-	-
Bank statement balance at the end of the year	-	-

ILEMBE DISTRICT MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
As at 30 June 2017

	2017	2016
	R	R
<u>Investment Current Account</u>		
<i>Rand Merchant Bank Account</i>		
<i>Account Number XS021900669 : Call Account</i>		
Bank statement balance at the beginning of the year	235 700	222 149
Bank statement balance at the end of the year	-	235 700
<u>Petty cash and cash on hand</u>	44 000	44 000
<u>Total investments</u>	2 013 102	236 924
<u>Bank Statement Balance</u>	2 827 841	35 635 363
Cash book balance at beginning of year	1 733 146	12 231 863
Cashbook balance at year end	1 852 001	1 733 146

4 TRADE AND OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Department of Water & Sanitation (WSIG)	-	-
Ndwedwe Local Municipality (Town Development)	-	6 813 833
Department of Water & Sanitation (Emergency Drought Relief)	-	1 849 693
Department of Cooperative Governance & Traditional Affairs (MIG)	-	60 856 818
Department of Water & Sanitation (WSIG)	-	20 762 391
Department of Water Affairs (RBIG/LTBWSS)	27 423 456	56 722 601
Total Other Debtors	27 423 456	147 005 337

5 OTHER NON-CURRENT FINANCIAL ASSETS

Investments in municipal entity - Enterprise Iembe Development Agency	100	100
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6 INVENTORIES

Opening balance of inventories:	10 609 260	14 941 091
Consumable stores - at Net Replacement Cost	10 148 268	14 523 266
Water	460 993	417 804
Movements:	2 410 797	(4 331 830)
Consumable stores	1 961 209	(4 375 019)
Water	449 588	43 188
Closing balance of inventories:	13 020 058	10 609 260
Consumable stores	12 109 477	10 148 266
Water	910 581	460 993

7 NON-CURRENT RECEIVABLES

Staff Debtors	257 126	271 808
Less: Provision for bad debts	(236 494)	(236 494)
Total	20 632	35 314

These loans were as a result of bursaries granted to certain staff members as part of a bursary scheme approved by council in previous financial years.

8 INVESTMENTS

<u>Financial Instruments</u>		
ABSA zero coupon investment	25 809 873	24 419 710

This investment has been ceded as security against the long term loan from ABSA disclosed in Note 15

ILEMBE DISTRICT MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
As at 30 June 2017

10. PROPERTY, PLANT AND EQUIPMENT

10.1 Reconciliation of Carrying Value

	Land		Buildings		Infrastructure Water & Sewer		Assets Under Construction		Other Assets		Finance lease assets		Total	
	R	R	R	R	R	R	R	R	R	R	R	R	R	R
As at 1 July 2016	3 242 908	10 362 688	1 925 952 749	-	4 534 773	15 037 005	1 959 139 919							
Cost/Revaluation	3 242 908	18 438 825	2 292 376 593	-	15 178 258	40 502 521	2 369 739 105							
Correction of prior year error (note 31)	-	-	-3 635 724	-	-	-	(3 635 724)							
Accumulated depreciation and impairment losses	-	(8 076 136)	(362 778 117)	-	(10 643 485)	(25 465 510)	(406 983 254)							
Acquisitions	-	-	-	-	7 147 328	385 140	7 512 468							
Capital under Construction	-	-	200 448 890	-	198 649	-	200 647 539							
Depreciation	-	(781 910)	(62 912 488)	-	(1 730 613)	(14 087 391)	#####							
Carrying value of disposals	-	-	(2 681)	-	(216 496)	-	(219 176)							
Cost/Revaluation	-	-	(60 328)	-	(2 719 145)	-	(2 779 474)							
Accumulated depreciation and impairment losses	-	-	57 648	-	2 502 649	-	2 560 298							
Impairment loss/Reversal of impairment loss	-	-	(6 685 885)	-	-	-	(6 685 885)							
Transfers	-	-	153 702 041	-	198 649	-	153 900 690							
Other movements (change in accounting estimates)	-	-	-	-	-	-	-							
As at 30 June 2017	3 242 908	9 580 779	2 210 512 627	-	9 933 641	1 334 754	2 234 604 509							
Cost/Revaluation	3 242 908	18 438 825	2 646 467 194	-	19 805 091	40 867 681	2 728 821 670							
Accumulated depreciation and impairment losses	-	(8 858 046)	(435 954 566)	-	(9 871 449)	(39 532 907)	(434 216 568)							

Assets Under Construction is made of the following:

Balcone/Kwasizabantu	69 806 255
Building Alterations	1 112 930
Dingleton Water Borne Sewer	1 566 309
EPWP	5 424 503
Grootville Rural Housing	89 814 256
Intelligent Meters	70 371 494
Inyoni Housing Bulk Sewer Supply	4 768 790
Inyoni Housing Bulk Water Supply	31 056 558
Maccanabi Water Supply	79 712 859
Mandeni WC & Demand MNGT	4 347 913
MWIG	179 403 396
Nat Disaster Man Cent: Drought	6 511 457
Nkululeko Water Supply	31 649 409
Nkxaxhe Town Development	20 721 364
Nqobonkwasidukuza Bulk Water Supply	115 202 220
Ozwathini/Phambala Water	5 139 496
Regional Bulk Offtakes	211 460 934
Southern Regional Bulk Water Sewer	924 391
Sundumbili Waste water Upgrade	1 759 620
Telemetry System	1 893 754
Wosiyani Extension	6 244 597
	938 942 311

Capital Projects - Cancelled/Delays in Construction

Name of the Project
There were no delayed or cancelled Capital Projects

Assets Under Construction Reconciliation:

Opening Balance at 1 July 2016	738 483 421
Additions	200 448 890
Transferred to completed projects	354 349 580
Closing balance at 30 June 2017	153 900 690
	938 942 311

ILEMBE DISTRICT MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for year ended 30 June 2015

10.2 Reconciliation of Carrying Value

	Land	Buildings	Infrastructure Water & Sewer	Assets Under Construction	Other Assets	Finance lease assets	Total
	R	R	R	R	R	R	R
As at 1 July 2015	3 242 908	11 144 599	1 096 340 745	388 171 792	6 080 419	28 070 501	1 533 050 961
Cost/Revaluation	3 242 908	18 438 825	1 408 100 012	388 171 792	18 105 684	41 779 100	1 877 904 321
Correction of prior year error (note 31) - Cost	-	-	-	-	2 305 736	579 493	2 885 229
Correction of prior year error (note 31) - Accumulated depreciation and impairment losses	-	(426 816)	(39 477 691)	-	(2 266 542)	(157 933)	(42 328 981)
Accumulated depreciation and impairment losses	-	(6 867 411)	(272 287 576)	-	(12 124 458)	(14 130 180)	(305 409 694)
Acquisitions	-	-	-	-	795 521	1 513 621	2 309 142
Capital under Construction	-	-	-	497 238 166	343 002	-	497 581 168
Depreciation	-	(781 910)	(47 698 071)	-	(1 744 838)	(13 521 482)	(63 746 402)
Carrying value of disposals	-	-	(68 975)	-	(932 781)	(1 025 634)	(2 027 391)
Cost/Revaluation	-	-	(780 375)	-	(4 185 143)	(3 211 760)	(8 173 278)
Accumulated depreciation and impairment losses	-	-	727 400	-	3 232 361	2 189 126	9 145 887
Impairment loss/Reversal of impairment loss	-	-	(4 042 179)	-	(6 450)	-	(4 048 629)
Transfers	-	-	146 573 535	(146 916 537)	-	-	(343 002)
*Other movements - Change in accounting estimates	-	-	-	-	-	-	-
As at 30 June 2016	3 242 908	10 362 688	1 191 105 053	738 493 421	4 534 773	15 037 005	1 962 775 643
Cost/Revaluation	3 242 908	18 438 825	1 553 683 172	738 493 421	15 178 258	40 502 521	2 369 739 105
Accumulated depreciation and impairment losses	-	(8 076 136)	(362 778 117)	-	(10 643 485)	(25 465 516)	(406 903 254)

Refer to Appendix B for more detail on property, plant and equipment

**ILEMBE DISTRICT MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
As at 30 June 2017**

11 HERITAGE ASSETS

	Moveable Objects	Total
11.1 Reconciliation of carrying value		R
As at 1 July 2016	205 578	205 578
Cost	205 578	205 578
Accumulated impairment losses	-	-
 As at 30 June 2017	 205 578	 205 578
Cost	205 578	205 578
Accumulated impairment losses	-	-
 11.2 Reconciliation of carrying value	R	R
as at July 2015	205 578	205 578
Cost	205 578	205 578
Accumulated impairment losses	-	-
 as at June 2016	 205 578	 205 578
Cost	205 578	205 578
Accumulated impairment losses	-	-

ILEMBE DISTRICT MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
As at 30 June 2017

12 INTANGIBLE ASSETS

12 Reconciliation of carrying value	Licenses	Computer Software	Total
	R	R	R
As at 1 July 2016	3 395 914	2 167 932	5 563 846
Cost	4 852 360	7 820 079	12 672 439
Prior year error (Cost)	161 000	-	161 000
Prior year error (Amortization)	31 267	-	31 267
Accumulated amortisation and impairment losses	(1 648 712)	(5 652 148)	(7 300 860)
Acquisitions	1 884 400	-	1 884 400
Other Movements	-	-	-
Amortisation	(1 801 162)	-	(1 801 162)
As at 30 June 2017	3 157 152	2 167 932	5 325 083
Cost	6 575 760	7 820 079	14 395 839
Accumulated amortisation and impairment losses	(3 418 608)	(5 652 148)	(9 070 755)

12 Reconciliation of carrying value

	Licenses	Computer Software	Total
	R	R	R
As at 1 July 2015	2 665 864	2 167 932	4 833 798
Cost	2 485 590	7 820 079	10 305 669
Prior year error (note 31)	254 772	-	254 772
Accumulated amortisation and impairment losses	(74 497)	(5 652 148)	(5 726 645)
Acquisitions	2 433 870	-	2 433 870
Other Movements	-	-	-
Amortisation	(1 885 086)	-	(1 885 086)
Carrying value of disposals	(11 001)	-	(11 001)
Cost	(67 100)	-	(67 100)
Accumulated amortisation	56 099	-	56 099
Other movements	-	-	-
As at 30 June 2016	3 203 648	2 167 932	5 371 579
Cost	4 852 360	7 820 079	12 672 439
Accumulated amortisation and impairment losses	(1 648 712)	(5 652 148)	(7 300 860)

ILEMBE DISTRICT MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
As at 30 June 2017

IDM
2017
R

IDM
2016
R

13 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

Trade creditors	121 983 728	64 812 230
Consumer debtors with credit balances	8 307 754	7 236 456
Staff leave accrual	11 681 239	11 150 386
Outstanding Payments	1 894 790	34 826 489
RD Cheques	42 150	42 300
Other creditors	79 492 892	217 291 187
13th Cheque	5 509 732	4 428 484
Consumer water deposits	5 387 773	5 185 167
Total creditors	234 300 057	344 972 698

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

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

14 TRADE AND OTHER PAYABLES FROM NON-EXCHANGE TRANSACTIONS

Unspent Conditional Grants and Receipts		
Provincial Township Establishment	962 942	1 166 610
Water Services Operating Grant	-	2 915 980
Rural Transport Service Grant	-	104 891
Grants - Other	-	300 000
Total Unspent Conditional Grants and Receipts	962 942	4 487 483
Non-current unspent conditional grants and receipts	962 942	4 487 482
Current portion of unspent conditional grants and receipts	962 942	4 487 482

See Note 21 for reconciliation of grants and receipts. These amounts are invested in ring-fenced investment until utilised.

15 BORROWINGS

Development Bank of South Africa	53 281 994	54 611 487
ABSA	31 566 863	30 000 000
	84 848 857	84 611 487
Less: Current portion transferred to current liabilities	5 475 551	6 136 403
Development Bank of South Africa	3 908 688	2 937 685
ABSA	1 566 863	3 198 719
Non current portion of borrowings	79 373 305	78 475 084

Development Bank of South Africa
Bears interest at rates between 9.02% and 11.04% per annum and are repayable every six months with the last repayment due on 30 September 2025.

ABSA Loan
Bears interest at 10.8% per annum, interest is paid quarterly and the loan is repayable in 2025.

Refer to Appendix A for more detail on borrowings.

16 FINANCE LEASE LIABILITY

As at 30 June 2017	Minimum lease payment R	Future finance charges R	Present value of minimum lease payments R
Amounts payable under finance leases			
Within one year	14 236 366	112 067	14 124 319
Within two to five years	-	-	-
	14 236 366	112 067	14 124 319
Less: Amount due for settlement within 12 months (current portion)			14 124 319
			-
Minimum lease payments			697 471
Capital amount within one year			13 426 848
Residual value at contract expiry			14 124 319

The leases are for a variety of motor vehicles and computers equipment that are utilised in the course of performing the Municipality's powers and functions.

Motor vehicle leases are for three years. The interest rates vary between 9.0% and 15.5%. The termination dates vary between November 2015 and June September 2017. The leases are repaid monthly and include maintenance and make provision for the payment of excess distance travelled where applicable. At the termination of the leases the vehicles revert to the lessor.

Computer equipment leases are for three years. The interest rate charged is linked to the prime rate. The termination dates vary between June 2014 and May 2017. The leases are repaid monthly and include maintenance and insurance. At termination of the leases the computer equipment revert to the lessor.

as at 30 June 2016	Minimum lease payment R	Future finance charges R	Present value of minimum lease payments R
Amounts payable under finance leases			
Within one year	17 579 475	2 115 699	15 463 776
Within two to five years	8 277 303	297 157	7 980 147
	25 856 778	2 412 855	23 443 923
Less: Amount due for settlement within 12 months (current portion)			15 463 776
			7 980 147

The leases are for a variety of motor vehicles that are utilised in the course of performing the Municipality's powers and functions. The leases are for five years and 240 000 kilometres. The interest rates vary between 9.0% and 15.5%. The termination dates vary between November 2013 and November 2015. The leases are repaid monthly and include maintenance and make provision for the payment of excess distance travelled where applicable. At the termination of the leases the vehicles revert to the lessor.

17 SERVICE CHARGES

Sale of water	90 737 351	95 899 055
Sewerage and sanitation charges	66 446 025	59 104 375
Revenue Forgone	(20 545 914)	(9 855 513)
Total Service Charges	136 637 461	145 147 918

Sale of water is broken down into prepaid sales and conventional meters water sales.

17.1 Sale of Water		
Prepaid water sales	25 327 943	25 250 754
Conventional meters water sales	65 409 408	70 648 301
	90 737 351	95 899 055
Revenue Forgone	(512 587)	(294 564)
Total Water Sales	90 224 784	95 604 492

ILEMBE DISTRICT MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
As at 30 June 2017

	IDM 2017 R	IDM 2016 R
18 RENTAL OF FACILITIES AND EQUIPMENT		
iLembe Auditorium	13 244	14 221
Rental of facilities	-	-
Total rentals	13 244	14 221
19 INTEREST EARNED - BANK BALANCES		
Bank	2 854 791	4 768 538
20 INTEREST EARNED - OUTSTANDING RECEIVABLES		
Interest on debtors	18 997 572	18 195 506
21 GOVERNMENT GRANTS AND SUBSIDIES		
Equitable share	373 891 000	338 089 801
Municipal Infrastructure Grant	186 984 000	238 540 934
Other Government Grants and Subsidies	201 656 580	326 300 121
Total Government Grant and Subsidies	762 531 580	902 930 856
21.1 Equitable Share		
Balance unspent at beginning of year	-	-
Current year receipts	373 891 000	338 089 801
Conditions met - transferred to revenue	(373 891 000)	(338 089 001)
	-	-
21.2 Municipal Infrastructure Grant		
Balance unspent at beginning of year	(60 856 819)	-
Current year receipts	186 984 000	189 590 000
Conditions met - transferred to revenue	(186 984 000)	(238 540 934)
Adjustments and Transfers	60 856 819	(11 905 885)
Conditions met - balance remain in transfer payments debtors (see note 4)	0	(60 856 819)
Adjustments and transfers relate to amounts disclosed on note 31 as a correction of prior year overstatement		
21.3 Other Grants		
Balance unspent at beginning of year	300 000	864 846
Current year receipts	-	905 637
Conditions met - transferred to revenue	(300 000)	(1 470 483)
Adjustments and Transfers	-	-
Conditions still to be met - remain liabilities (see note 14)	(0)	300 000
21.4 WATER SERVICE OPERATING GRANT		
Balance unspent at beginning of year	2 915 980	-
Current year receipts	-	4 000 000
Conditions met - transferred to revenue	(2 850 182)	(1 084 020)
Adjustments and Transfers	(65 798)	-
Conditions still to be met - remain liabilities (see note 14)	(0)	2 915 980
Adjustments and transfers relate to amounts disclosed on note 31 as a correction of prior year overstatement		
21.5 REGIONAL BULK INFRASTRUCTURE GRANT - LTBWSS		
Balance unspent at beginning of year	(56 722 601)	-
Current year receipts	127 452 160	100 977 074
Conditions met - transferred to revenue	(125 517 456)	(141 075 826)
Adjustments and Transfers	25 488 751	(16 623 850)
Conditions met - balance remain in transfer payments debtors (see note 4)	27 423 455.89	(56 722 601)
Adjustments and transfers relate to amounts disclosed on note 31 as a correction of prior year overstatement		
21.6 RURAL TRANSPORT SERVICE		
Balance unspent at beginning of year	104 891	-
Current year receipts	2 174 000	2 116 000
Conditions met - transferred to revenue	(2 049 594)	(2 003 058)
Adjustments and Transfers	(229 208)	(8 050)
Conditions still to be met - remain liabilities (see note 14)	0	104 891
Adjustments and transfers relate to amounts disclosed on note 31 as a correction of prior year overstatement		
21.7. SHARED SERVICES GRANT (DPSS)		
Balance unspent at beginning of year	-	-
Current year receipts	-	250 000
Conditions met - transferred to revenue	-	(250 000)
Adjustments and Transfers	-	-
Conditions met	-	-
21.8 MUNICIPAL WATER INFRASTRUCTURE GRANT		
Balance unspent at beginning of year	(20 762 391)	-
Current year receipts	62 500 000	125 366 820
Conditions met - transferred to revenue	(58 500 000)	(146 129 211)
Adjustments and Transfers	16 762 391	-
Conditions met - balance remain in transfer payments debtors (see note 4)	(0)	(20 762 391)
Adjustments and transfers relate to amounts disclosed on note 31 as a correction of prior year overstatement		
21.9 PROVINCIAL TOWNSHIP ESTABLISHMENT		
Balance unspent at beginning of year	1 166 610	1 166 610
Current year receipts	-	-
Conditions met - transferred to revenue	-	-
Adjustments and Transfers	(1 166 610)	-
Conditions still to be met - remain liabilities (see note 14)	0	1 166 610
Adjustments and transfers relate to amounts disclosed on note 31 as a correction of prior year overstatement		
21.10 KWADUKUZA MUNICIPAL INFRASTRUCTURE GRANT		
Balance unspent at beginning of year	-	-
Current year receipts	-	6 100 223
Conditions met - transferred to revenue	-	(5 417 819)
Adjustments and Transfers	-	(682 404)
Conditions met	-	-
Adjustments and transfers relate to amount declared as vat output		

ILEMBE DISTRICT MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
As at 30 June 2017

	IDM 2017 R	IDM 2016 R
21.14 FINANCIAL MANAGEMENT GRANT		
Balance unspent at beginning of year	-	-
Current year receipts	1 250 000	1 250 000
Conditions met - transferred to revenue	(1 250 000)	(1 148 086)
Adjustments and Transfers	-	(101 914)
Conditions met	-	-

Adjustment for non-vatiable items

21.12 EXPANDED PUBLIC WORKS PROGRAMME		
Balance unspent at beginning of year	0	2 267 171
Current year receipts	1 850 000	1 536 000
Conditions met - transferred to revenue	(1 850 000)	(537 370)
Adjustments and Transfers	-	(3 265 601)
Conditions met	0,00	0

21.13 MUNICIPAL SYSTEMS IMPROVEMENT GRANT		
Balance unspent at beginning of year	-	-
Current year receipts	-	940 000
Conditions met - transferred to revenue	-	-
Adjustments and Transfers	-	-
Conditions still to be met - remain liabilities (see note 14)	-	940 000

21.14 NDWEDWE TOWN DEVELOPMENT		
Balance unspent at beginning of year	(6 813 833)	-
Current year receipts	10 816 737	9 668 990
Conditions met - transferred to revenue	(3 534 155)	(14 458 617)
Adjustments and Transfers	(1 431 691)	(2 024 206)
Conditions still to be met - remain liabilities (see note 14)	(62 942)	(6 813 833)

Adjustments and transfers relate to amounts disclosed on note 31 as a correction of prior year overstatement

21.15 DROUGHT RELIEF GRANT - NATIONAL DISASTER MANAGEMENT GRANT (COGTA/NDMC)		
Balance unspent at beginning of year	0	5 468 894
Current year receipts	-	-
Conditions met - transferred to revenue	-	(5 468 894)
Adjustments and Transfers	-	-
Conditions met	0	0

21.16 DROUGHT RELIEF GRANT - NATIONAL DISASTER MANAGEMENT GRANT (DWS)		
Balance unspent at beginning of year	(1 849 693)	-
Current year receipts	-	4 054 504
Conditions met - transferred to revenue	-	(5 205 200)
Adjustments and Transfers	1 849 693	(698 998)
Conditions met - balance remain in transfer payments debtors (see note 4)	(0)	(1 849 693)

Adjustments and transfers relate to amounts disclosed on note 31 as a correction of prior year overstatement

22 OTHER INCOME, PUBLIC CONTRIBUTIONS AND DONATIONS

22.1 Other income		
Tender Documents	123 653	262 888
Telephone recovered	-	123 815
Clearance certificates	1 084 305	978 849
Private developers	1 805 382	3 421 038
Siza Water Concession	2 027 687	1 531 387
Insurance proceeds	-	-
Shared Service	2 314 913	2 256 670
Enterprise Itembe	677 983	1 166 764
LG Seta Income	191 485	464 609
New connections	-	1 312
Vat Refunds	-	-
Other income	1 045 773	247 750
	9 271 161	10 455 083

22.2 Public contributions and donations		
Gain on sale of assets	4 355	-
Loss on sale of assets	(24 668)	-
Total public contributions and donations	(20 314)	

23 EMPLOYEE RELATED COSTS

Employee related costs - Salaries and Wages	118 035 466	113 409 858
Employee related costs - Contributions for UIF, pensions and medical aids	24 673 824	22 796 879
Travel, motor car, accommodation, subsistence and other allowances	7 067 922	4 681 415
Housing benefits and allowances	1 440 063	1 323 389
Overtime payments	5 844 959	6 490 264
Performance and other bonuses	9 901 004	8 495 067
Long-service awards	1 569 706	1 272 520
Other employee related costs	4 951 231	4 507 337
Employee Related Costs	173 684 174	162 976 730

There were no advances to employees.

Remuneration of the Municipal Manager		
Annual Remuneration	1 102 424	1 036 486
Travel, motor car, accommodation, subsistence	143 054	134 957
Contributions to UIF, Medical and Pension Funds and other allowances	1 785	1 785
13th Cheques Provision	95 605	62 480
Performance Bonus	37 955	-
Total	1 380 812	1 235 708

The Municipal Manager position was filled in June 2015

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	IDM 2017 R	IDM 2016 R	
Remuneration of the Chief Financial Officer			
Annual Remuneration	421,010	953,230	
Travel, motor car, accommodation, subsistence	92,417	209,246	
Contributions to UIF, Medical and Pension Funds and other allowances	892	1,785	
Performance Bonus	11,625	-	
Total	525,944	1,164,261	
	Technical Services	Corporate Services	Corporate Governance
	R	R	R
Remuneration of Individual Executive Directors			
As at 30 June 2017			
Annual Remuneration	1,205,888	815,169	1,164,527
Travel, motor car, accommodation, subsistence and other allowances	-	269,879	-
Contributions to UIF, Medical and Pension Funds	1,785	61,264	1,785
Performance Bonus	11,376	21,872	75,933
Total	1,219,049	1,108,284	1,243,215
	R	R	R
June 2016			
Annual Remuneration	1,137,630	769,027	1,098,611
Travel, motor car, accommodation, subsistence and other allowances	-	254,603	-
Contributions to UIF, Medical and Pension Funds	1,785	79,765	1,785
Total	1,139,415	1,103,395	1,100,396

24 REMUNERATION OF COUNCILLORS

Mayor	907,200	854,676
Deputy Mayor	736,597	758,307
Speaker	702,624	457,700
Executive Committee Members	1,185,653	1,830,608
Councillors' Allowances	4,339,016	5,508,684
Councillors' pension and medical aid contributions	149,556	303,744
Total Councillors' Remuneration	8,020,646	9,713,698

In-kind Benefits

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

The Mayor, Deputy Mayor and Speaker has use of the Council owned vehicle for official duties. The Mayor has 4 full-time Protectors.

25 DEPRECIATION, IMPAIRMENT AND AMORTISATION EXPENSE

Depreciation	79,492,402	63,748,402
Impairment of Assets	6,695,885	4,048,629
Intangible assets Amortisation	1,801,162	1,885,080
Total Depreciation, Impairment and Amortisation	87,979,450	69,682,111

The impairment recognized mainly relates to impairment of infrastructure assets due to the impact of drought.

26 FINANCE COSTS

Borrowings	2,034,451	6,019,226
Leases	7,942,313	2,428,583
Total Finance Costs	9,976,764	8,447,809

27 BULK PURCHASES

Water	75,803,000	82,752,475
Total Bulk Purchases	75,803,000	82,752,475

28 CONTRACTED SERVICES

Contracted services for:		
Plant Hire	17,658,331	30,928,924
Security	10,607,729	20,555,710
Salga games	1,420,013	5,858,828
Rental of Smart Boxes	220,406	183,320
Meter reading contractors	-	27,500
Fax & Copier rentals	1,099,449	2,965,584
VIP Toilets Expenditure (MIG Operational)	7,362,768	25,597,032
Rural Roads Assets Systems Management Grant (RRAMS) Expenditure	1,797,889	1,921,807
Development and Planning	-	199,324
Lease of Vehicles - Maintenance	-	6,845,299
Rental of Buildings	61,705	15,720
Vehicle Hire	427,300	719,727
Insurance	1,590,293	1,743,697
	52,146,813	97,488,367

30 GENERAL EXPENSES

Included in general expenses are the following -

Advertising	1,038,223	1,422,403
Audit fees	2,218,276	2,524,000
Bank charges	232,152	218,140
Cleaning	892,343	948,649
Conferences and delegations	-	25,184
Entertainment	237,952	1,067,703
Fuel and oil	13,601,498	10,802,318
Insurance	-	-
Legal expenses	224,875	322,688
LG Sets Expenditure	-	126,654
Licence fees - vehicles	50,060	49,643
Membership fees	2,016,202	1,924,850
Postage	1,787,684	1,779,640
Printing and stationery	62,478	1,025,634
Professional fees	2,604,639	1,187,875
Disaster Management	652,085	1,838,260
IDP & Planning	48,786	24,900
Property rates	371,008	617,991
Commission Agency	1,556,821	1,089,122
Special Projects - Youth, Gender, HIV	379,149	528,132
Sports Development	224,335	577,901
Telephone cost	1,594,011	3,081,687
Training	2,453,437	2,527,304
Travel and subsistence	101,513	2,243,555
Uniforms & overalls	2,384,654	1,693,082
Water and Sanitation - Siza Water Concession area	2,169,183	1,993,119
Electricity & Water	25,969,490	22,379,328
Local Economic Development Projects	21,468,383	19,573,000
Consumables (Repairs and Maintenance)	31,958,042	47,613,055
Shared Services	2,800,532	1,384,083
Public Participation	516,161	538,272
Siza Water concession contract monitoring fee	752,700	2,332,369
Other	1,504,120	4,487,553
	129,862,381	137,667,248

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	IDM 2017 R	IDM 2016 R
30.1 Repairs and Maintenance		
Repairs and Maintenance is made up of the following		
Consumable - Inventory	31 956 042	47 613 055
Contracted Services	31 042 332	13 807 914
Total Expenditure on Repairs and Maintenance	63 000 374	61 420 969

31 CORRECTION OF PRIOR YEAR ERRORS AND CHANGE IN ACCOUNTING POLICY

Property, plant and equipment		
<i>Change in the remaining useful life of assets that does not meet the requirements of a change in estimate</i>	(129 733)	254 772
<i>depreciation</i>	(3 635 724)	
Trade and other Receivables from exchange transactions		
VAT not claimed when payment was made	86 443	
<i>Prior year transactions relating to sundry debtors</i>	(25 550)	
<i>Consumer Debtors adjustment as a result of clearing unallocated deposits</i>	-	(3 769 483)
<i>Other debtors mainly relates to enterprise ilembe balances alignment with IDM and staff receivables</i>	-	102 245
Trade and other receivables from non exchange transactions		
<i>Restatement of grant debtors that were overstated in 2016</i>	(108 504 244)	
<i>Reversal DWS INVS16 - cost not accepted as part of Drought intervention, restatement of debtor balance</i>	-	(1 048 038)
Stock Adjustments - Reversal of NRV for the prior year	1 274 587	356 873
Non Current Finance Lease Liability		
<i>Correction of expenditure previously recognised as a lease liability, reversal of operational lease liability</i>	-	306 208
Trade and other Payables		
<i>Expenditure provided for in the prior financial years which has not been paid to date due to various reasons</i>	563 196	391 988
<i>Reversal of prior year invalid accruals</i>	16 138 446	
<i>Monies deposited to the main bank account in prior year which have not been allocated to date</i>	2 177 011	
<i>Correction of prior year trade creditors</i>	5 161 920	
<i>Re-instatement of DBSA loan balances at year end</i>	(3 711 053)	
Other	-	46 492
	(90 604 710)	(3 318 943)

31.1 PRIOR YEAR ADJUSTMENTS

Trade and other Receivables from exchange transactions		
<i>Consumer Debtors adjustment as a result of clearing unallocated deposits</i>	(687 256)	-
	(687 256)	-

32 CASH GENERATED BY OPERATIONS

Surplus/(deficit) for the year	330 506 893	419 779 530
Adjustment for -		
Depreciation and amortisation	87 979 450	69 680 117
Transfers to / from accumulated surplus/(deficit)	(79)	-
Forex gain/(loss)	(78 248)	1 127 527
Loss on disposal of PPE	20 314	422 371
Contribution to provisions - non-current	40 241 279	97 678 134
Contribution to provisions - current	1 295 916	1 507 006
Finance costs	9 976 764	8 447 809
Prior Year Adjustments	(90 604 710)	(3 318 943)
Investment Income	(2 854 791)	(4 768 538)
Bad debts written off	(26 476 668)	(9 806 065)
Operating surplus before working capital changes:	350 006 126	580 748 949
Increase/ (decrease) in inventories	(2 410 797)	4 331 830
Increase/(decrease) in trade receivables	9 620 063	30 098 680
(Increase)/decrease in other receivables	119 581 881	(72 819 331)
Increase in conditional grants and receipts	(3 524 540)	(5 280 040)
(Decrease)/increase in trade payables	(110 672 641)	78 065 725
Other assets (Bad debts recovered)	-	-
Other liability	-	-
Cash generated by/(utilised in) operations	362 600 086	615 155 813

33 CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR

Cash and cash equivalents included in the cash flow statement comprise the following:

Bank balances and cash	5 766 622	35 916 287
Net cash and cash equivalents (net of bank overdrafts)	5 766 622	35 916 287

UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL

34 EXPENDITURE

34.1 Unauthorised expenditure

Reconciliation of unauthorised expenditure		
Unauthorised expenditure current year	40 409 739	62 514 566
Certified as irrecoverable and written off by council in terms of MFMA section 32	-	(62 514 566)
	40 409 739	-

Incident

Purchase of municipal vehicles to be utilized as tools of trade by the Mayor and Deputy Mayor

The vehicle was acquired through an outright purchase and there was no provision in the budget for the outright purchase. The municipality had initially planned to acquire this vehicle through leasing option with its contracted leasing financial institution which later proved not to be economically viable.

This expenditure relates to the implementation of Lower Thukela Bulk Water Supply Scheme (LTBWSS) which is funded through the RBIG from the Department of Water and Sanitation. The initial allocation for the financial year was R156mil and was later cut back to R140mil. The cut back was factored in the adjustment budget, however at the time the cut back was implemented commitments in terms of expenditure were already made (on the basis of R156mil) and thereby making it not easy to cut down on certain projects within the LTBWSS.

This relates to over expenditure on depreciation & asset impairment. The condition assessment as well as the physical verification conducted on municipal infrastructural assets revealed that the current status of certain assets is worse than it had been anticipated during the budget process. This is mainly attributable to the ageing of infrastructure as well as human acts of vandalism on sites that are presently not guarded.

Action taken

Council has considered and noted items of unauthorised expenditure and has referred them to MPAC for further scrutiny. Any further action will be taken upon MPAC's recommendation to Council.

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	IDM 2017 R	IDM 2016 R
34.2 Fruitless and wasteful expenditure		
Reconciliation of fruitless and wasteful expenditure		
Fruitless and wasteful expenditure current year	513 114	236 222
Certified as irrecoverable and written off by Council in terms of MFMA section 32/Recovered from responsible officials	-	(236 222)
	<u>513 114</u>	<u>-</u>
Incident		
Interest payment arising out of a dispute with Sappi over an old debt entailing arrear accounts that had not been billed by Sappi between February 2012 and May 2014		
Interest levied by SEMBCORP siza water on late payment of invoices in respect of free basic services the delay in payment of these invoices was due to a long standing dispute on the method of billing for free basic services		
Interest levied by KwaDukuza Local Municipality on late payment of electricity accounts		
Action taken		
The municipality is in the process of implementing measures that are aimed at turning around the current status of municipal finances. The primary objective is to ensure financial sustainability and healthy liquidity of the municipality		
Council has considered and noted items of fruitless and wasteful expenditure and has referred them to MPAC for further scrutiny. Any further action will be taken upon MPAC's recommendation to Council.		
34.3 Irregular expenditure		
Reconciliation of irregular expenditure		
Irregular expenditure current year	8 523 373	1 162 385
Certified by council as irrecoverable and written off in terms of MFMA section 32	-	(1 162 385)
Irregular expenditure awaiting consideration	<u>8 523 373</u>	<u>-</u>
Incident		
This service provider was contracted by the Municipality between 2010 and 2011 to carry out debt collection for the municipality. At the time of appointment, the requisite bidding processes were not fully complied with, resulting in the appointment rendered irregular.		
Action taken		
Council has considered and noted items of fruitless and wasteful expenditure and has referred them to MPAC for further scrutiny. Any further action will be taken upon MPAC's recommendation to Council.		
34.4 Deviations		
Deviations were approved in terms of regulation 36 of the Supply Chain Management Policy		
Total value	<u>12 579 551</u>	<u>9 748 552</u>
	<u>12 579 551</u>	<u>9 748 552</u>
ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT		
35.1 Contributions to organised local government		
Opening balance	370 111	465 283
Council subscriptions	1 945 687	1 714 103
Amount paid - current	(1 949 600)	(1 829 276)
Balance unpaid (included in payables)	<u>366 198</u>	<u>370 111</u>
35.2 Audit fees		
Current year audit fee	2 216 276	2 524 000
Amount paid - current year	(2 216 276)	(2 524 000)
Balance unpaid (included in payables)	<u>-</u>	<u>-</u>
35.3 VAT		
VAT input receivables and VAT output payables are shown in note 13. All VAT returns have been submitted by the due date throughout the year.		
35.4 PAYE and UIF		
Opening balance	2 225 007	1 826 613
Current year payroll deductions	26 765 009	25 349 950
Amount paid - current year	(22 225 719)	(23 124 943)
Amount paid - previous years	(2 225 007)	(1 826 613)
Balance unpaid (included in payables)	<u>4 539 289</u>	<u>2 225 007</u>
The balance represents PAYE and UIF deducted in May 2017 and June 2017 payroll. These amounts are paid in the following month which is July 2017.		
35.5 Pension and Medical Aid Deductions		
Opening balance	3 147 774	2 794 089
Current year payroll deductions and Council Contributions	42 458 128.73	36 346 979
Amount paid - current year	(38 785 846)	(33 199 206)
Amount paid - previous years	(3 147 774)	(2 794 089)
Balance unpaid (included in payables)	<u>3 672 263</u>	<u>3 147 774</u>
The balance represents Pension & Medical aid deducted in May 2017 and June 2017 payroll. These amounts were paid in July 2017 except medical aid and RA which were paid in the month of deduction which is June 2017.		
35.6 Councillor's arrear consumer accounts		
Councillor NG Mthethwa	-	663
Councillor R Singh	19 030	-
Councillor MD Mpolu	1 159	-
Total Councillor Arrear Consumer Accounts	<u>20 189</u>	<u>663</u>
35.6 Material losses		
35.6.1 Asset impairment (losses)/ Reversal		
The current year impairment is a result of ageing infrastructure due to the impact of drought	(6 685 885)	(4 048 629)
35.6.2 Debt impairment (losses)		
Although the revenue collection has slightly improved compared to the prior year, council has incurred material debt impairment losses written off against the provision for bad debts. This is mainly as a result of restricted inactive accounts that are accumulating interest with no corresponding payments, pensioner accounts and deceased consumer accounts that are accumulating interest. This write-off has resulted in a decrease in consumer debtors and provision for bad debts.	(26 476 668)	(9 806 065)

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IDM
2017
R

IDM
2016
R

35.6.3 Waiver of right relating to Financial Asset - (83 675 951)

An amount of R 83 675 951 is distinguished from a write off of debt but is as per the waiver of the contractual right to collect debt by Ilambe District Municipality from the Mandeni Community due to violent protests that erupted just before the local government election.

In terms of paragraph 68 (a) of GRAP 104, an entity shall derecognise a financial asset only when: (a) the contractual rights to the cash flows from the financial asset expire, are settled or waived.

Paragraph 69 of the same GRAP standard states that an entity may waive the right to receive contractual receipts under the terms of an existing arrangement.

	Percentage distribution		
35.7 Distribution Losses			
Units lost (kilolitres)			
Illegal connections and other	54%	5 913 722	2 306 757
Main leaks	33%	3 592 437	3 831 350
Reservoir overflows	0%	25 660	27 367
Service connection leaks	14%	1 513 956	1 614 640
Units lost (kilolitres)	100%	11 045 775	7 782 114

Units lost (sales price per kilolitre - rands) 97 438 986 75 071 415

Units lost (purchase price per kilolitre - rands) 39 631 730 28 007 562

Units lost (percentage) 52.28% 44.53%

The distribution losses are mainly due to illegal connections, main leaks (ageing infrastructure), reservoir overflows and service connection leaks. A five year strategic master plan for the reduction of non revenue water has been adopted by the municipality to address this problem.

35.9 Material Forex Losses

Total Forex Liability as at 30 June	-	1 962 805
Net Cumulative Forex Gain/(Losses)	78 248	(422 371)
Percentage losses	0%	-22%

The material forex losses arising from the Microsoft License forex liability was due to unexpected adverse fluctuations in the rand dollar exchange rate.

As at 30 June 2017, the rand to dollar exchange rate closed at spot rate of R 13.06. There was no liability as at 30 June 2017.

36 CAPITAL COMMITMENTS

36.1 Commitments in respect of capital expenditure

- Approved and contracted for	242 515 409	308 742 033
Infrastructure	242 515 409	308 742 033
Community	-	-
Total	242 515 409	308 742 033

This expenditure will be financed from:

- External Loans	242 515 409	308 742 033
- Government Grants	-	-
- Council funded	-	-
	242 515 409	308 742 033

37 EMPLOYEE BENEFITS INFORMATION

37.1 Defined contribution plan

The following are defined contribution plans: Natal Joint Municipal Pension Fund, National Treasury Government Employee Pension Fund, SALA Pension Fund and Municipal Councilors Pension Fund. These contributions have been expensed.

37.2 Other Long-term benefit plan

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the municipality.

The municipality's net obligation in respect of long service awards is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value and the fair value of any related assets is deducted to determine the net obligation.

The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the municipality's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognised in surplus or deficit in the period in which they arise.

The independent valuers carried out a statutory valuation as at 30 June 2017.

The principal actuarial assumptions used were as follows:

Discount rate per annum	8.84%	8.83%
Inflation rate	5.64%	6.53%
Net effective discount rate	2.05%	1.21%
Benchmark inflation (equal to salary inflation)	6.64%	6.64%
Average retirement age	65	65
Mortality during employment	SA 85-90 ultimate	SA 85-90 ultimate
Percentage of in-service members withdrawing before retirement:		
Age 20	40%	40%
Age 30	25%	25%
Age 40	12%	12%
Age 50	4%	4%
Age 55+	2%	2%

Statement of Financial Position were determined as being the present value of the obligation.

	8 258 766	7 977 161
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EMPLOYEE BENEFITS (continued)

Movement in the defined benefit obligation is as follows:

Balance at beginning of the year	7 977 161	7 271 627
Current service cost	745 220	822 374
Interest cost	659 601	556 104
Benefit payments	(1 014 311)	(801 472)
Actuarial (gains)/losses	(108 905)	128 528
Balance at end of year	8 258 766	7 977 161

The timing of the employee benefits is as follows:

Current portion of employee benefits	494 551	1 014 311
Employee benefit obligation	7 764 215	6 962 850
	8 258 766	7 977 161

The amounts recognised in the Statement of Financial Performance were as follows:

Current service cost	745 220	822 374
Interest cost	659 601	556 104
Actuarial (gains)/losses	(108 905)	128 528
	1 295 916	1 507 006

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	IDM 2017 R	IDM 2016 R
38 RELATED PARTIES		
Members of key management Controlled Municipal Entity	<i>Section 57 managers Ilembe District Municipality has a 100% holding in Ilembe Development Enterprise (Pty) Ltd. Refer to note 23 & 24</i>	
Compensation to councillors and other key management		
Related party balances		
Amount owed to Ilembe Enterprise included in other payables	(526 467)	(1 268 537)
Related party transactions		
Transactions with Enterprise Ilembe Development Agency		
Grant funding from the parent for LED projects	21 488 383	19 573 095
Rental of offices	-	-
Shared costs recoveries included in other income (e.g. lease of vehicles, cellphones)	677 983	1 166 764

39 EVENTS AFTER THE REPORTING DATE

Matters pertaining to debt impairment, asset impairment, inventory adjustments and certified as irrecoverable unauthorized, irregular, fruitless and wasteful expenditure and reclassification of irregular expenditure as deviations in terms of circular 68 that existed as at 30 June 2017 was tabled at Council on the 29th August 2017
Possible effect on the reported figures are as follows

Statement of financial position		
Decrease in Consumer Debtors	(26 476 658)	(9 806 065)
(Decrease)/ Increase in carrying amount of property, plant & equipment as a result of impairment	(6 685 885)	(4 042 179)
Statement of financial performance		
Increase/(decrease) in total depreciation, impairment and amortisation	87 979 450	69 680 117
Increase in provision for doubtful debt	40 241 279	97 678 134
Disclosures		
Increase/(decrease) in Irregular expenditure	7 360 997	(1 162 385)
Increase/(Decrease) in fruitless and wasteful expenditure	276 891	105 927
Increase/(Decrease) in unauthorized expenditure	(22 104 829)	62 514 568
Increase in deviations	2 630 999	4 609 288

40 RISK MANAGEMENT

40.1 Maximum credit risk exposure

Credit risk is the risk that a counter party to a financial instrument will fail to discharge an obligation and cause the municipality to incur a financial loss.

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 evaluates 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.

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

Consumer debtors	229 180 297	211 612 744
Other debtors	27 423 456	147 005 337
	<u>256 603 753</u>	<u>358 618 081</u>
Ageing of consumers		
Current (0 – 30 days)	10 839 809	13 843 597
31 - 60 Days	7 933 309	9 045 940
61 - 90 Days	7 296 186	10 819 864
91 - 120 Days	6 820 599	6 146 237
121 - 365 Days	6 919 511	9 001 545
+ 365 Days	189 370 883	162 754 580
Total	229 180 297	211 612 744
Less: Provision for bad debts	(144 859 064)	(259 488 520)
Net consumer debtors	<u>84 321 232</u>	<u>(47 875 777)</u>
Cash and cash equivalents	5 765 622	35 916 287
Other investments	25 809 873	24 419 710
	<u>31 576 495</u>	<u>60 335 997</u>

These balances represent the maximum exposure to credit risk.

40.2 Liquidity risk

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The municipalities approach to managing liquidity risk is to ensure that sufficient liquidity is available to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Municipalities reputation.

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.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The Municipalities liability are backed by appropriate assets and it has liquid resources.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the Statement of Financial Position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within a year	Between 2 to 5 years	Total
2017			
Gross finance lease obligations	14 124 319	-	14 124 319
Borrowings	3 908 688	79 373 305	83 281 994
Trade and other payables	235 262 999	-	235 262 999
Other	484 551	7 764 215	8 258 766
	<u>253 790 558</u>	<u>87 137 520</u>	<u>340 928 078</u>
2016			
Gross finance lease obligations	15 463 776	7 980 147	23 443 923
Borrowings	5 864 775	77 958 904	83 823 679
Trade and other payables	349 460 180	-	349 460 180
Other	1 014 311	6 962 850	7 977 161
	<u>371 803 042</u>	<u>82 901 901</u>	<u>454 704 943</u>

ILEMBE DISTRICT MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
As at 30 June 2017

IDM 2017 R	IDM 2016 R
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40.3 Interest rate risk

The Municipality is not exposed to interest rate risk on its financial liabilities. All of the Municipality's interest bearing external loan liabilities are fixed interest loans.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

The Municipality is exposed to fair value interest rate on its external loan liabilities, which are all fixed interest rates.

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

Cash and cash equivalents	5 766 622	35 916 287
Other investments	25 809 873	24 419 710
Gross finance lease obligations	14 124 319	23 443 923
Borrowings	84 848 657	84 611 487
Consumer debtors	229 180 297	211 612 744

40.4 Foreign Currency Risk

Municipality has a three year contract for the deployment of Microsoft share point with Microsoft.

At year end

Forex gains	89 384	355 514
Forex Losses	(11 137)	(777 884)
Foreign exchange Gain or (losses) were	78 248	(422 371)
Foreign exchange liability was:	-	1 952 805
Sensitivity analysis:		

There was no forex liability as at 30 June 2017. Forex transactions resulted in a gain of R 78 248.

41 RECONCILIATION BETWEEN BUDGET AND CASH FLOW STATEMENT

	Key	Operating	Financing	Investing	Total
Amount as present in the budget statement		151 913 171	(13 759 916)	(157 082 776)	(18 929 521)
Actual amount as presented in the cash flow statement		355 478 113	(25 594 466)	(360 033 312)	(30 149 665)
Basis difference	<i>Applicable</i>	-39 907 056			(39 907 056)
Timing differences	<i>Not applicable</i>	-	-	-	
Entity differences	<i>Not applicable</i>	-	-	-	
Variance		-163 657 886	11 834 550	202 950 536	51 127 200
Variance percentage		-107.73%	-86.01%	-129%	-270%

ILEMBE DISTRICT MUNICIPALITY
APPENDIX A
AUDITED SCHEDULE OF EXTERNAL LOANS
as at 30 June 2017

EXTERNAL LOANS	Loan number	Redeemable Date	Balance at 1 July 2016		Received during the period		Interest Paid during the period		Interest Accrued at Year End		Redeemed / written off during the period		Balance at 30 June 2017	
			R	R	R	R	R	R	R	R	R	R		
LONG-TERM LOANS														
ABSA Bank @10.65% Development Bank of SA @10.80%		2025 9/30/2025	30 000 000	-	-	-	1 566 862	-	3 665 526	-	31 566 862			
			54 611 487	-	-	6 922 636	2 336 032	-	3 665 526	-	53 281 994			
Total long-term loans			84 611 487	-	-	6 922 636	3 902 895	-	3 665 526	-	84 848 856			
ANNUITY LOAN														
Development Bank of SA @16.50% Development Bank of SA @13.45%	13527 11578	2014	-	-	-	-	-	-	-	-	-			
Total capital creditors			-	-	-	-	-	-	-	-	-			
TOTAL EXTERNAL LOANS			84 611 487	-	-	6 922 636	3 902 895	-	3 665 526	-	84 848 856			

ILEMBE DISTRICT MUNICIPALITY
APPENDIX B
AUDITED ANALYSIS OF PROPERTY PLANT AND EQUIPMENT
as at 30 June 2017

	Accumulated Depreciation																							
	Cost / Revaluation		Additions		Change in policy/prior year errors		Disposals		Opening Balance		Depreciation		Disposals		Change in policy/prior year errors		Reversal of impairment loss		Impairment loss		Closing Balance		Carrying Value	
	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R
Land	3 242 908.00	-	-	-	3 242 908	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3 242 908
Buildings	18 438 826.00	-	-	-	18 438 826	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9 580 781
Infrastructure	142 306 098.95	-	-	-	142 583 883	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	86 828 628
Sewerage Mains & Purification	1 411 577 073.04	-	-	-	1 564 041 001	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1 184 741 689
Water Mains & Purification	738 493 220.86	-	-	-	954 349 590	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	938 942 311
Under construction	2 292 376 592.65	-	-	-	354 349 590	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2 210 512 828
Total carried forward	2 314 058 326.65	-	-	-	354 349 590	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2 223 336 317

	Accumulated Depreciation																							
	Cost / Revaluation		Additions		Change in policy/prior year errors		Disposals		Opening Balance		Depreciation		Disposals		Change in policy/prior year errors		Reversal of impairment loss		Impairment loss		Closing Balance		Carrying Value	
	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R
Other Assets	3 830 244.44	25 656.66	-	-	3 885 618	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	989 221
Office Equipment	2 388 918.49	135 582.36	-	-	2 393 102	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	511 936
Machinery & Equipment	3 535 006.25	6 097 136.45	-	-	8 621 881	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6 753 400
Transport Assets	7 689 729.80	888 753.00	-	-	7 160 070	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1 678 788
Computer Equipment	17 444 788.98	7 147 328.47	-	-	22 071 632	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9 933 435
Finance Lease Assets	40 660 454.12	365 139.70	-	-	41 025 594	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1 334 754
Other Assets	40 660 454.12	365 139.70	-	-	41 025 594	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1 334 754
Total	2 372 163 578.75	7 512 468.17	-	-	2 731 246 154	0.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2 234 604 506

	Accumulated Depreciation																							
	Cost / Revaluation		Additions		Change in policy/prior year errors		Disposals		Opening Balance		Depreciation		Disposals		Change in policy/prior year errors		Reversal of impairment loss		Impairment loss		Closing Balance		Carrying Value	
	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R
Total brought forward	2 314 058 326.65	-	-	-	354 349 590	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2 223 336 317
Other Assets	3 830 244.44	25 656.66	-	-	3 885 618	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	989 221
Office Equipment	2 388 918.49	135 582.36	-	-	2 393 102	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	511 936
Machinery & Equipment	3 535 006.25	6 097 136.45	-	-	8 621 881	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6 753 400
Transport Assets	7 689 729.80	888 753.00	-	-	7 160 070	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1 678 788
Computer Equipment	17 444 788.98	7 147 328.47	-	-	22 071 632	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9 933 435
Finance Lease Assets	40 660 454.12	365 139.70	-	-	41 025 594	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1 334 754
Other Assets	40 660 454.12	365 139.70	-	-	41 025 594	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1 334 754
Total	2 372 163 578.75	7 512 468.17	-	-	2 731 246 154	0.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2 234 604 506

ILEMBE DISTRICT MUNICIPALITY
APPENDIX B
ANALYSIS OF PROPERTY PLANT AND EQUIPMENT
as at 30 June 2016

Accumulated Depreciation

	Cost / Revaluation		Under Construction	Opening Balance		Depreciation	Disposals	Change in policy/prior year errors	Impairment loss/Reversal of Impairment loss	Closing Balance	Carrying Value
	Opening Balance	Additions		R	R						
Land	3 242 908.00	-	-	3 242 908	-	-	-	-	-	-	3 242 908
Buildings	18 438 825.00	-	-	18 438 825	-	-781 910	-	-426 815	-	-8 076 136	3 242 908
Infrastructure	122 669 215.56	-	-	142 306 099	-	-5 655 380	92 373	-7 609 226	-52 814	-49 974 177	82 331 922
Sewerage Mains & Pufficaloi	1 285 436 796.74	-	-	1 411 577 073	-	-42 042 691	635 028	-31 808 465	-3 999 365	-312 803 941	1 088 773 130
Water Mains & Pufficaloi	388 171 791.55	-	-	736 493 421	-	-47 698 071	727 400	-39 477 691	-4 942 179	-362 778 117	738 493 421
Under construction	1 796 277 803.85	-	-343 002	2 292 376 593	-272 287 576	-47 698 071	727 400	-39 477 691	-4 942 179	-362 778 117	1 929 598 473
Total carried forward	1 817 959 536.85	-	-343 002	2 314 058 326	-279 154 987	-48 479 981	727 400	-39 904 506	-4 042 179	-370 854 253	1 943 204 070

ILEMBE DISTRICT MUNICIPALITY
APPENDIX B
ANALYSIS OF PROPERTY PLANT AND EQUIPMENT
as at 30 June 2016

Accumulated Depreciation

	Cost / Revaluation		Under Construction	Opening Balance		Depreciation	Disposals	Change in policy/prior year errors	Impairment loss/Reversal of Impairment loss	Closing Balance	Carrying Value
	Opening Balance	Additions		R	R						
Other Assets	3 541 382.76	110 830.00	-	3 830 244	-2 304 773	-300 952	31 448	-6 978	-3 587	-2 674 242	1 156 002
Office Equipment	2 192 868.51	89 100.00	-	2 388 918	-1 994 167	-248 874	17 754	-624	-1 826 301	-1 826 301	562 617
Machinery & Equipment	5 087 809.07	-	-	3 535 906	-2 374 250	-465 048	2 950 693	-2 259 564	-624	-2 088 769	1 447 137
Transport Assets	7 343 623.42	595 591.00	-	7 689 731	-5 651 181	-700 364	233 067	-2 240	-2 240	-6 320 918	1 368 814
Computer Equipment	18 165 683.76	795 521.00	-	17 444 800	-12 124 961	-1 784 938	3 232 361	-2 266 542	-6 430	-12 310 230	4 534 571
Finance Lease Assets	41 779 000.08	1 513 620.52	-	40 660 454	-14 130 160	-13 521 482	2 180 126	-157 833	-	-25 623 449	15 037 004
Other Assets	41 779 000.08	1 513 620.52	-	40 660 454	-14 130 160	-13 521 482	2 186 126	-157 833	-	-25 623 449	15 037 004
Total	1 877 904 320.69	2 309 141.52	-0	2 372 163 680	-305 409 807	-63 746 402	6 145 837	-42 328 981	-4 048 629	-409 387 932	1 962 775 644

ILEMBE DISTRICT MUNICIPALITY
APPENDIX C
AUDITED SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT
as at 30 June 2017

	Cost / Revaluation				Accumulated Depreciation						
	Opening Balance R	Additions R	Under Construction R	Disposals R	Closing Balance R	Opening Balance R	Additions R	Disposal R	& Impairment Loss/Reversal R	Closing Balance R	Carrying value R
Executive & Council	11 225 636	6 985 889	-	(2 428 674)	15 782 851	(8 409 687)	(1 159 097)	2 218 210	-	(7 350 573)	8 432 278
Finance & Admin	27 900 897	161 439	-	(290 471)	27 771 865	(12 576 679)	(1 353 426)	284 439	-	(13 645 666)	14 126 199
Waste Management	142 306 099	-	-	(36 200)	142 269 899	(49 974 177)	(5 812 938)	35 221	(3 360)	(55 755 255)	86 514 644
Water	1 411 577 073	-	-	(24 129)	1 411 552 944	(312 803 941)	(57 099 549)	22 428	(10 318 249)	(380 199 312)	1 031 353 632
Under Construction	738 493 421	-	354 349 580	-	1 092 843 001	-	-	-	-	(39 690 840)	1 092 843 001
Other	40 660 454	365 140	-	-	41 025 594	(25 623 449)	(14 067 391)	-	-	(39 690 840)	1 334 754
Total	2 372 163 580	7 512 468	354 349 580	(2 779 474)	2 731 246 154	(409 387 932)	(79 492 402)	2 560 298	(10 321 610)	(496 641 646)	2 234 604 506

ILEMBE DISTRICT MUNICIPALITY
APPENDIX D

AUDITED SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE
as at 30 June 2017

	2016		2017	
	Actual Expenditure R	Surplus / (Deficit) R	Actual Income R	Actual Expenditure R
	182 324 660	43 172 124	44 999 714	57 490 098
	78 204 799	29 175 907	132 738 407	120 076 223
	31 706 713	10 584 854	5 552 759	24 470 773
	-	(3 167 530)	-	1 725 787
	154 691 730	108 760 398	167 199 610	28 254 031
	644 439 732	231 253 778	579 909 058	367 875 742
Total	1 091 367 635	419 779 529	930 399 547	599 892 654
				330 506 892