

ELUNDINI LOCAL MUNICIPALITY



**FINANCIAL STATEMENTS
30 JUNE 2016**

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

General Information

Nature of Business and Principal Activities

Elundini Municipality is a local municipality performing the functions as set out in the Constitution. (Act no 108 of 1996).

Legal Form of Entity

South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no 117 of 1998)

Mayoral Committee

Executive Mayor

NR Yelani-Lengs

Speaker

M Bomela

Councillor

TJ Lehata

Portfolio head: Corporate Services

Councillor

LS Baduza

Portfolio head: Community Services

Councillor

AM Mqamelo

Portfolio head: Financial Services

Councillor

MP Leteba

Portfolio head: Technical Services

Councillor

KA Mgjijima

Portfolio head: Strategic Planning and Economic Development

Chief Finance Officer (CFO)

J Mdeni

Accounting Officer

K Gashi

Registered Office

No 1 Sellar Street

Maclear

5480

Bankers

First National Bank, Maclear

Standard Bank, Maclear

Auditors

Office of the Auditor General - South Africa

Registered Auditors

Attorneys

McFarlane & Associates

Venns Attorneys

Mgxaji Attorneys

Jolwana Mgidlana Incorporated

Wikus van Rensburg

Van der Walt Attorneys

Fikile Ntayiya & Associates

Other Directors

Manager: Corporate Services

S Matubatuba

Manager: Infrastructure Planning and Development

XW Mntonintshi

Manager: Strategic Planning and Economic Development

NC Eddie

Manager: Community Services

Vacant

Section 79 Chairpersons

Members Interest and Ethics Committee

JM Klaas

Municipal Public Accounts Committee

LB Magqashela

Mandate Committee

CN Mfecane

Remuneration Committee

N Nkalitshana

Unauthorised, Irregular, Fruitless & Wasteful

B Nqodi

Expenditure Committee

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

General Information

Audit Committee

Chairperson

Mr J G Richards

Member

Mr T de Beer

Member

Ms F Hluyo Mushohwe

Member

Mr A Mlambo

Members of the Elundini Local Municipality

Ward 1 - F W Ngayeka

Ward 2 - T J Pikinini

Ward 3 - J M Klaas

Ward 4 - K A Mgijima

Ward 5 - B Nqodi

Ward 6 - C N Mfecane

Ward 7 - G Sotsu

Ward 8 - N L Motema

Ward 10 - M E Tabana

Ward 11 - V V Majikijela

Ward 12 - N Q Lebenya

Ward 13 - S N Mdlazi

Ward 14 - N G Ntaopane

Ward 15 - L C Booka (from 15 August 2015)

Ward 16 - Z L Thwethiso

Ward 17 - V Ntuthu

Proportional - NR Yelani-Lengs

Proportional - A M Mqamelo

Proportional - M L Naketsana

Proportional - L S Baduza

Proportional - M Bomela

Proportional - D D Mvumvu

Proportional - E V Zililo

Proportional - N Nkalitshana

Proportional - G M Moni

Proportional - M T Heisi

Proportional - T J Lehata

Proportional - M Magqashela

Proportional - L Mohapi

Proportional - L Pili

Proportional - T J Koteli

Proportional - M Tsoananyana

Proportional - M Leteba

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Index

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

Index	Page
Approval of Annual Financial Statements	4
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Cash Flow Statement	8
Statement of Comparison of Budget and Actual Amounts	9 - 10
Accounting Policies	11 - 32
Notes to the Financial Statements	33 - 71

The following supplementary information does not form part of the financial statements and is unaudited:

Appendix A - Schedule of External Loans	72
Appendix B - Grants and Subsidies	73

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Approval of Annual Financial Statements

I am responsible for the preparation of these annual financial statements year ended 30 June 2016, which are set out on pages 1 to 74 in terms of Section 126 (1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality. The annual financial statements have been prepared in accordance with GRAP.

I acknowledge that I am ultimately responsible for the system of internal financial control and that the system of internal control provides reasonable assurance that the financial records can be relied on.

I have reviewed the Municipality's cash flow forecast for the year to 30 June 2017 and am satisfied that the Municipality can continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the Municipality's financial statements.

I certify that the remuneration of Councillors and in-kind benefits 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 annual determinations of the Minister of Cooperative Governance and Traditional Affairs in accordance with this Act.

K Gashi
Municipal Manager

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Statement of Financial Position as at 30 June 2016

Figures in Rand	Notes	2016	2015
Assets			
Current Assets			
Inventory	2	364,795	550,868
Receivables from Exchange Transactions	3	3,544,138	2,776,851
Receivables from Non-Exchange Transactions	4	3,927,835	5,249,449
Taxes	5	3,351,067	4,439,739
Cash and Cash Equivalents	6	51,715,876	33,805,506
Unpaid Conditional Grants	14	-	46,000
		62,903,711	46,868,413
Non-Current Assets			
Property, Plant and Equipment	7	339,065,672	324,062,937
Investment Property	8	34,969,098	35,046,281
Intangible Assets	9	226,642	287,449
		374,261,412	359,396,667
Non-Current Assets		374,261,412	359,396,667
Current Assets		62,903,711	46,868,413
Total Assets		437,165,123	406,265,080
Liabilities			
Current Liabilities			
Deferred Revenue	10	159,403	147,814
Consumer Deposits	11	388,085	361,827
Employee Benefit Obligations	12	10,399,665	8,216,040
Payables from Exchange Transactions	13	24,560,294	28,860,290
Unspent Conditional Grants and Receipts	14	1,426,821	1,612,292
Finance Leases	15	148,507	68,594
		37,082,775	39,266,857
Non-Current Liabilities			
Employee Benefit Obligations	12	4,019,893	3,817,866
Finance Leases	15	344,674	-
Provisions	16	11,156,232	8,658,969
Deferred Revenue	10	357,277	516,680
		15,878,076	12,993,515
Non-Current Liabilities		15,878,076	12,993,515
Current Liabilities		37,082,775	39,266,857
Total Liabilities		52,960,851	52,260,372
Assets		437,165,123	406,265,080
Liabilities		(52,960,851)	(52,260,372)
Net Assets		384,204,272	354,004,708
Accumulated Surplus		384,204,272	354,004,708

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015
Revenue			
Revenue from Exchange Transactions			
Service Charges	17	20,807,242	18,980,657
Plant Income	18	-	-
Rental of Facilities and Equipment	19	1,551,737	1,447,887
Interest Received - Investment		3,652,476	2,100,502
Interest Received (Trading)		1,400,071	1,166,390
Licences and Permits	20	1,864,978	1,973,303
Agency Services	21	-	1,414,350
Other Income	22	922,943	1,245,925
Gain on Disposal of Investment Property	36	150,000	-
Total Revenue from Exchange Transactions		30,349,447	28,329,014
Revenue from Non-Exchange Transactions			
Property Rates	23	14,582,826	13,661,290
Transfer Revenue			
Government Grants & Subsidies	24	190,730,567	159,218,973
Actuarial Gains		338,443	288,255
Fines	25	940,831	335,327
Reversal of Impairment		28,094	14,795
Reversal of Debt Impairment		-	4,334,116
Total Revenue from Non-Exchange Transactions		206,620,761	177,852,756
Total Revenue		236,970,208	206,181,770
Expenditure			
Employee Related Costs	26	(70,802,984)	(61,675,717)
Remuneration of Councillors	27	(10,791,698)	(9,813,631)
Debt Impairment	28	(6,132,625)	(3,234,016)
Depreciation and Amortisation	29	(26,843,182)	(30,834,006)
Collection Costs		(1,105,620)	(343,718)
Stock Adjustments		(25,924)	(119,398)
Repairs and Maintenance	30	(5,465,154)	(5,523,785)
Finance Costs	31	(907,467)	(813,969)
Bulk Purchases	32	(19,064,933)	(15,058,558)
Contracted Services	33	(2,730,602)	(2,109,018)
Operating grant expenditure	34	(23,799,816)	(6,898,530)
General Expenses	35	(38,933,246)	(40,953,219)
Loss on Disposal of Investment Property	36	-	(75,623)
Loss on Disposal of Property, Plant and Equipment	36	(167,388)	(374,137)
Total Expenditure		(206,770,639)	(177,827,325)
Surplus for the Year		30,199,569	28,354,445

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Statement of Changes in Net Assets

Figures in Rand	Accumulated Surplus	Total Net Assets
Balance at 01 July 2014 - Restated (Refer to Note 42)	325,650,263	325,650,263
Surplus for the Year	28,354,445	28,354,445
Total changes	<u>28,354,445</u>	<u>28,354,445</u>
Balance at 01 July 2015	354,004,703	354,004,703
Surplus for the Year	30,199,569	30,199,569
Total Changes	<u>30,199,569</u>	<u>30,199,569</u>
Balance at 30 June 2016	<u>384,204,272</u>	<u>384,204,272</u>

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Cash Flow Statement

Figures in Rand	Notes	2016	2015
Cash flows from operating activities			
Receipts			
Rates, Services and Other		40,117,843	38,833,377
Government		190,602,036	150,903,969
Interest Income		1,400,071	1,166,390
		<u>232,119,950</u>	<u>190,903,736</u>
Payments			
Suppliers and Employees		(173,257,761)	(136,644,305)
Finance Costs		(18,515)	(145,211)
		<u>(173,276,276)</u>	<u>(136,789,516)</u>
Total receipts		232,119,950	190,903,736
Total payments		(173,276,276)	(136,789,516)
Net Cash Flows from Operating Activities	37	<u>58,843,674</u>	<u>54,114,220</u>
Cash Flows from Investing Activities			
Purchase of Property, Plant and Equipment	7	(41,220,929)	(44,730,576)
Proceeds from Sale of Property, Plant and Equipment	7	221,560	100,956
Proceeds from Sale of Investment Property	8	150,000	265,877
		<u>(40,849,369)</u>	<u>(44,363,743)</u>
Cash flows from financing activities			
Decrease in Long-Term Liabilities		(110,210)	(195,212)
Increase in Consumer Deposits		26,275	17,633
		<u>(83,935)</u>	<u>(177,579)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents		17,910,370	9,572,898
Cash and Cash Equivalents at the Beginning of the Year		33,805,506	24,232,608
Cash and Cash Equivalents at the End of the Year	6	<u>51,715,876</u>	<u>33,805,506</u>

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Figures in Rand

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual
--	-----------------	-------------	--------------	------------------------------------	--

Statement of Financial Position

Total Current Assets	115,260,831	(22,288,831)	92,972,000	62,903,711	(30,068,289)
Total Non-current Assets	353,658,401	(11,185,401)	342,473,000	374,261,412	31,788,412
Total Current Liabilities	(66,526,763)	28,765,763	(37,761,000)	(37,082,775)	678,225
Total Non-current Liabilities	(5,516,947)	(63,077,053)	(68,594,000)	(15,878,076)	52,715,924
Total Net Assets	396,875,522	(67,785,522)	329,090,000	384,204,272	55,114,272

Statement of Financial Performance

Revenue

Property rates	15,120,550	450	15,121,000	14,582,826	(538,174)
Service charges	28,139,017	(1,154,017)	26,985,000	20,807,242	(6,177,758)
Rental of Facilities and Equipment	1,294,008	(220)	1,293,788	1,551,737	257,949
Interest Received - Investment	1,500,000	(147,000)	1,353,000	3,652,476	2,299,476
Interest earned	1,877,387	(551,387)	1,326,000	1,400,071	74,071
Fines	75,979	4,021	80,000	940,831	860,831
Licences and Permits	2,386,360	(800,360)	1,586,000	1,864,978	278,978
Agency Services	1,549,943	(1,549,943)	-	-	-
Transfers Recognised - Operational	184,464,000	(27,900,000)	156,564,000	157,496,076	932,076
Other Revenue	35,694,000	36,420,000	72,114,000	1,289,480	(70,824,520)
Gain on disposal of Investment Property	340,306	(306)	340,000	150,000	(190,000)
Plant Income	11,642,992	302,220	11,945,212	-	(11,945,212)
Total Revenue	284,084,542	4,623,458	288,708,000	203,735,717	(84,972,283)

Expenditure

Employee Related Costs	(62,849,926)	(8,614,074)	(71,464,000)	(70,802,984)	661,016
Remuneration of Councillors	(12,399,740)	1,512,740	(10,887,000)	(10,791,698)	95,302
Debt Impairment	(8,289,457)	(1,401,543)	(9,691,000)	(6,132,625)	3,558,375
Depreciation and Amortisation	(33,787,195)	(9,116,805)	(42,904,000)	(26,843,182)	16,060,818
Finance Costs	(93,386)	72,386	(21,000)	(907,467)	(886,467)
Bulk Purchases	(21,178,448)	(461,552)	(21,640,000)	(19,064,933)	2,575,067
Other Materials	(10,885,132)	(2,481,868)	(13,367,000)	(5,465,154)	7,901,846
Contracted Services	(4,344,537)	776,537	(3,568,000)	(2,730,602)	837,398
Other Expenses	(113,417,999)	15,646,999	(97,771,000)	(63,864,606)	33,906,394
Loss on disposal of PPE	-	-	-	(167,388)	(167,388)
Total expenditure	(267,245,820)	(4,067,180)	(271,313,000)	(206,770,639)	64,542,361
Transfers Recognised - Capital	37,992,000	(5,000,000)	32,992,000	33,234,491	242,491
Operating Surplus	54,830,722	(4,443,722)	50,387,000	30,199,569	(20,187,431)

Cash Flow Statement

Net Cash Flow from Operating Activities	99,531,871	(46,804,871)	52,727,000	58,843,674	6,116,674
Net Cash Flow from Investing Activities	(57,992,000)	7,607,000	(50,385,000)	(40,849,369)	9,535,631
Net Cash Flow from Financing Activities	-	-	-	(83,935)	(83,935)
Net increase / (decrease) in Cash and Cash Equivalents	41,539,871	(39,197,871)	2,342,000	17,910,370	15,568,370

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

	Original budget	Adjustments	Final budget	Actual	Difference
OPERATING EXPENDITURE BY VOTE					
Executive Council	35,691,000	1,505,000	37,196,000	32,790,996	(4,405,004)
Budget & Treasury	37,526,000	9,659,000	47,185,000	26,646,390	(20,538,610)
Corporate Services	25,962,000	677,000	26,639,000	21,985,880	(4,653,120)
Community Services	26,388,000	7,539,000	33,927,000	28,683,157	(5,243,843)
Strategic Planning & Development	10,102,000	1,689,791	11,791,791	8,643,604	(3,148,187)
Technical services	131,577,000	(17,001,791)	114,575,209	86,224,049	(28,351,160)
Total Expenditure	267,246,000	4,068,000	271,314,000	204,974,076	(66,339,924)
CAPITAL EXPENDITURE BY VOTE					
Executive Council	836,000	(448,344)	387,656	378,606	9,050
Budget & Treasury	1,262,000	1,310,000	2,572,000	2,172,136	399,864
Corporate Services	868,000	200,320	1,068,320	465,010	603,310
Community Services	4,605,000	(2,306,780)	2,298,220	1,608,376	689,844
Strategic Planning & Development	2,182,000	(599,648)	1,582,352	1,565,610	16,742
Technical Services	44,738,000	(2,261,100)	42,476,900	35,622,868	6,854,032
Total Capital Expenditure	54,491,000	(4,105,552)	50,385,448	41,812,606	8,572,842

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Accounting Policies

1. Presentation of Financial Statements

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

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

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

The financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

The financial statements have been prepared in accordance with the Municipal Finance Management Act (MFMA) and effective standards of Generally Recognised Accounting Practices (GRAP), including any interpretations and directives issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework, have been developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 (Revised – March 2012) and the hierarchy approved in Directive 5 issued by the Accounting Standards Board.

A summary of the significant accounting policies, which have been consistently applied except where an exemption has been granted, are disclosed below.

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

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

In terms of Directive 7: "The Application of Deemed Cost on the Adoption of Standards of GRAP" issued by the Accounting Standards Board, the Municipality applied deemed cost to Investment Property, Property, Plant and Equipment and Intangible where the acquisition cost of an asset could not be determined.

1.1 Presentation currency

Amounts reflected in the financial statements are in South African Rand and at actual values. Financial values are rounded to the nearest one Rand.

1.2 Going concern assumption

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

1.3 Comparative figures

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

When the presentation or classification of items in the financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where material 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.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.4 Amended disclosure policy

Amendments to accounting policies are reported as and when deemed necessary based on the relevance of any such amendment to the format and presentation of the financial statements. The principal amendments to matters disclosed in the current financial statements include errors.

1.5 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Materiality is determined as 1% of total operating expenditure. This materiality is from management's perspective and does not correlate with the auditor's materiality.

1.6 Budget information

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

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

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

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

The presentation of budget information is prepared in accordance with GRAP 24 and guidelines issued by National Treasury. The comparison of budget and actual amounts are disclosed as a separate additional financial statement, namely Statement of comparison of budget and actual amounts.

Budget information is presented on the accrual basis and is based on the same period as the actual amounts. The budget information is therefore on a comparable basis to the actual amounts.

The comparable information includes the following:

- > the approved and final budget amounts;
- > actual amounts and final budget amounts;

Explanations for differences between the approved and final budget are included in the Notes to the Financial Statements. Explanations for material differences between the final budget amounts and actual amounts are included the Notes to the Financial Statements.

The disclosure of comparative information in respect of the previous period is not required in terms of GRAP 24.

1.7 Leases

Finance leases - 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 de-recognition and impairment of financial instruments are applied to lease receivables.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.7 Leases (continued)

Finance leases - 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 (excluding licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights) 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 and equipment, investment property or intangibles assets. 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 de-recognition of financial instruments are applied to lease payables.

Operating leases - lessor

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease revenue is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined revenue and actual payments received will give rise to an asset. The Municipality recognises the aggregate cost of incentives as a reduction of rental revenue over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

Operating leases - lessee

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined expenses and actual payments made will give rise to a liability. The Municipality recognises the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

1.8 Unspent conditional government grants and receipts

Conditional government grants are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

Unspent conditional grants are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from government organs.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- > Unspent conditional grants are recognised as a liability when the grant is received.
- > When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- > The cash which backs up the creditor is invested as individual investment or part of the general investments of the Municipality until it is utilised.
- > Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

1.9 Unpaid conditional government grants and receipts

Unpaid conditional grants are assets in terms of the Framework that are separately reflected on the Statement of Financial Position. The asset is recognised when the Municipality has an enforceable right to receive the grant or if it is virtually certain that it will be received based on that grant conditions have been met. They represent unpaid government grants, subsidies and contributions from the public.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.10 Provisions and contingencies

Provisions are recognised when the Municipality has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resource embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate of future outflows of resources. Where the effect is material, non-current provisions are discounted to their present value using a discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability.

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where an inflow of economic benefits or service potential is probable.

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

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

- (a) The Municipality has a detailed formal plan for the restructuring identifying at least:
- > the business or part of a business concerned;
 - > the principal locations affected;
 - > the location, function and approximate number of employees who will be compensated for terminating their services;
 - > the expenditures that will be undertaken; and
 - > when the plan will be implemented.
- (b) The Municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

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

If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision is de-recognised.

1.11 Employee benefits

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

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

Post Retirement Medical Obligations

The Municipality provides post-retirement medical benefits by subsidizing the medical aid contributions of certain retired staff according to the rules of the medical aid funds. Council pays 70% as contribution and the remaining 30% is paid by the members. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The present value of the defined benefit liability is actuarially determined in accordance with GRAP 25 – "Employee Benefits" (using a discount rate applicable to high quality government bonds). The plan is unfunded.

These contributions are recognised in the Statement of Financial Performance when employees have rendered the service entitling them to the contribution. The liability was calculated by means of the projected unit credit actuarial valuation method. The liability in respect of current pensioners is regarded as fully accrued, and is therefore not split between a past (or accrued) and future in-service element. The liability is recognised at the present value of the defined benefit obligation at the reporting date, minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly, plus any liability that may arise as a result of a minimum funding requirements. Payments made by the Municipality are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are recognised in the Statement of Financial Performance as employee benefits upon valuation.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.11 Employee benefits (continued)

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is recognised in the Statement of Financial Performance in the period that it occurs. These obligations are valued annually by independent qualified actuaries.

Long Service Awards

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the Municipality. The Municipality's obligation under these plans is valued by independent qualified actuaries annually and the corresponding liability is raised. Payments are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are recognised in the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is recognised in the Statement of Financial Performance in the period that it occurs. These obligations are valued annually by independent qualified actuaries.

Provision for Staff Leave

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end and also on the total remuneration package of the employee.

Accumulating leave is carried forward and can be used in future periods if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term. Accumulated leave is vesting.

Staff Bonuses Accrued

Liabilities for staff bonuses are recognised as they accrue to employees. The liability at year end is based on bonus accrued at year-end for each employee.

Provision for Performance Bonuses

A provision, in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees, contract workers and other senior managers, is recognised as it accrue. Municipal entities' performance bonus provisions are based on the employment contract stipulations as well as previous performance bonus payment trends. This bonus is not guaranteed.

Pension and retirement fund obligations

The Municipality provides retirement benefits for its employees and councillors. Defined contribution plans are post-employment benefit plans under which the Municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are recognised in the Statement of Financial Performance in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued triannually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities. The contributions and lump sum payments are recognised in the Statement of Financial Performance in the year they become payable. Sufficient information is not available to use defined benefit accounting for a multi-employer plan. As a result, defined benefit plans have been accounted for as if they were defined contribution plans.

Other Short-term Employee Benefits

When an employee has rendered service to the Municipality during a reporting period, the Municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- > as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the Municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- > as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.12 Property, Plant and Equipment

Initial Recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the Municipality, and the cost or fair value of the item can be measured reliably. 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 bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Municipality. Trade discounts and rebates are deducted in arriving at the cost. 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 nonmonetary asset or monetary assets, or a combination of monetary and non-monetary assets, the assets acquired is initially measured at fair value (the cost). If the acquired item's fair value is 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.

Subsequent Measurement - Cost Model

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated 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 or service potential associated with the asset.

Depreciation and Impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual depreciation rates are based on the following estimated useful lives:

Item	Depreciation method	Average useful life
Land and Buildings	Straight line	20 - 100
Infrastructure	Straight line	5 - 120
Leased Assets	Straight line	3 - 7
Other Property, Plant and Equipment	Straight line	3 - 15

Property, plant and equipment are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment recognised in the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

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

De-recognition

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.12 Property, Plant and Equipment (continued)

Items of property, plant and equipment are derecognised when the asset is disposed 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.

1.13 Intangible Assets

Initial Recognition

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset meets the identifiability criterion in the definition of an intangible asset when it:

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

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;
- > it is probable that the municipality will receive future economic benefits or service potential; and
- > the Municipality can measure reliably the expenditure attributable to the intangible asset during its development.

Intangible assets are initially recognised at cost.

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 is not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Subsequent Measurement - Cost Model

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

Amortisation and Impairment

Amortisation is charged so as to write off the cost or valuation of intangible assets over its estimated useful lives using the straight line method. Amortisation of an asset begins when it is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are amortised separately. The estimated useful lives, residual values and amortisation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual amortisation rates are based on the following estimated useful lives:

Item	Useful life
Computer software	5 years

De-recognition

Intangible assets are derecognised when the asset is disposed 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.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.14 Investment Property

Initial Recognition

Investment property is recognised as an asset when, and only when:

- > it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the Municipality, and
- > the cost or fair value of the investment property can be measured reliably.

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations. Property with a currently undetermined use, is also classified as investment property.

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

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Subsequent Measurement - Cost Model

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

Depreciation and Impairment - Cost Model

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

<u>Investment Property</u>	<u>Years</u>
Buildings	100 - 105

De-recognition

Investment property is derecognised when it is disposed or when there are no further economic benefits expected from the use of the investment property. The gain or loss arising on the disposal or retirement of an item of investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.15 Borrowing costs

The Municipality recognises all borrowing costs as an expense in the period in which they are incurred.

1.16 Impairment of cash-generating assets

Cash-generating assets are assets held with the primary objective of generating a commercial return.

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable amount.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.16 Impairment of cash-generating assets (continued)

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

(a) External sources of information

- > During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
- > Significant changes with an adverse effect on the Municipality have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the Municipality operates or in the market to which an asset is dedicated.
- > Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

(b) Internal sources of information

- > Evidence is available of obsolescence or physical damage of an asset.
- > Significant changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
- > Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

The re-designation of assets from a cash-generating asset to a non-cash generating asset or from a non-cash-generating asset to a cash-generating asset shall only occur when there is clear evidence that such a re-designation is appropriate. A re-designation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. Instead, the indication for an impairment test or a reversal of an impairment loss arises from, as a minimum, the indications listed above.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

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

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Municipality estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Financial Performance.

1.17 Impairment of non-cash-generating assets

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

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable service amount.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.17 Impairment of non-cash-generating assets (continued)

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

(a) External sources of information

- > Cessation, or near cessation, of the demand or need for services provided by the asset.
- > Significant long-term changes with an adverse effect on the Municipality have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the Municipality operates.

(b) Internal sources of information

- > Evidence is available of obsolescence or physical damage of an asset.
- > Significant changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.

The value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using any one of the following approaches, depending on the nature of the asset in question:

- > depreciation replacement cost approach - the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.
- > restoration cost approach - the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.
- > service unit approach - the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

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

An impairment loss is recognised immediately in surplus or deficit.

The Municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the Municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for an asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable service amount. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods. Such a reversal of an impairment loss is recognised in the Statement of Financial Performance.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.18 Inventory

Initial Recognition

Inventories comprise of current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Municipality, and the cost of the inventories can be measured reliably. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus non-recoverable 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.

Cost of land held for sale is assigned by using specific identification of their individual costs.

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.

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. 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.

1.19 Financial instruments

Financial instruments recognised on the Statement of Financial Position include receivables (both from exchange transactions and non-exchange transactions), cash and cash equivalents, annuity loans and payables (both from exchange and non-exchange transactions) and non-current investments. The future utilization of Unspent Conditional Grants is evaluated in order to determine whether it is treated as financial instruments.

Initial recognition

Financial instruments are initially recognised when the Municipality becomes a party to the contractual provisions of the instrument at fair value plus, in the case of a financial asset or financial liability not at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. If finance charges in respect of financial assets and financial liabilities are significantly different from similar charges usually obtained in an open market transaction, adjusted for the specific risks of the Municipality, such differences are immediately recognised in the period it occurs, and the unamortised portion adjusted over the period of the loan transactions.

Subsequent measurement of financial assets and financial liabilities

Financial assets are categorised according to their nature as either financial assets at fair value, financial assets at amortised cost or financial assets at cost. Financial liabilities are categorised as either at fair value or financial liabilities carried at amortised cost. The subsequent measurement of financial assets and liabilities depends on this categorisation.

Receivables

Receivables are classified as financial assets at amortised cost, and are subsequently measured at amortised cost using the effective interest rate method.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.19 Financial instruments (continued)

For amounts due from debtors carried at amortised cost, the Municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Objective evidence of impairment includes significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue). If the Municipality determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Financial Performance. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the municipality. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the Statement of Financial Performance.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate, if material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Payables and Annuity Loans

Financial liabilities consist of payables and annuity loans. They are categorised as financial liabilities held at amortised cost, and are initially recognised at fair value and subsequently measured at amortised cost using an effective interest rate, which is the initial carrying amount, less repayments, plus interest.

Cash and Cash Equivalents

Cash includes cash on hand (including petty cash) and cash with banks. Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, highly liquid deposits and net of bank overdrafts. The Municipality categorises cash and cash equivalents as financial assets carried at amortised cost.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities carried at amortised cost.

Derecognition

Financial assets

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

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

When the Municipality has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the old asset is derecognised and a new asset is recognised to the extent of the Municipality's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Municipality could be required to repay.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.19 Financial instruments (continued)

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Municipality's continuing involvement is the amount of the transferred asset that the Municipality may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of Financial Performance.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously

1.20 Statutory receivables

Statutory receivables arise from legislation, supporting regulations, or similar means and require settlement by another entity in cash or another financial asset. Statutory receivables can arise from both exchange and non-exchange transactions.

Initial Recognition

Statutory receivables are recognised when the related revenue is recognised or when the receivable meets the definition of an asset.

Measurement

The Municipality initially measures the statutory receivables at their transaction amount. The Municipality measure statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to reflect any:

- > interest or other charges that may have accrued on the receivable;
- > impairment losses; and
- > amounts derecognised.

The Municipality assesses at each reporting date whether there is any indication that a statutory receivable may be impaired. If there is an indication that a statutory receivable may be impaired, the Municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable is reduced, through the use of an allowance account. The amount of the loss is recognised in the Statement of Financial Performance. In estimating the future cash flows, the Municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the Municipality discounts the estimated future cash flows using a rate that reflects the current risk free rate and any risks specific to the statutory receivable for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows. Any previously recognised impairment loss is adjusted by adjusting the allowance account. The amount of any adjustment is recognised in the Statement of Financial Performance.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Accounting Policies

De-recognition

The Municipality derecognises a statutory receivable when:

- > the rights to the cash flows from the receivable are settled, expire or are waived;
- > the Municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- > the Municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable 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:
 - > derecognise the receivable; and
 - > recognise separately any rights and obligations created or retained in the transfer.

1.21 Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the Municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred, meet the criteria for recognition as an asset. A corresponding liability is recognised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. At the time of initial recognition the full amount of revenue is recognised. If the Municipality does not enforce its obligation to collect the revenue, this would be considered as a subsequent event. Collection charges are recognised when such amounts are legally enforceable. Rebates and discounts are offset against the related revenue, in terms of iGRAP 1, as there is no intention of collecting this revenue.

Penalty interest on unpaid rates is recognised on a time proportionate basis as an exchange transaction.

Fine Revenue constitutes both spot fines and summonses. Fine revenue is recognised when the spot fine or summons is issued. In cases where fines and summonses are issued by another government institute, revenue will only be recognised when monies are received, as the Municipality does not have any control over fines issued by other government institutes.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the Municipality. Where public contributions have been received, but the Municipality has not met the related conditions, it is recognised as an unspent public contribution (liability).

Revenue from third parties i.e. insurance payments for assets impaired, are recognised when it can be measured reliably and is not being offset against the related expenses of repairs or renewals of the impaired assets.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the Municipality.

All unclaimed deposits are initially recognised as a liability until 36 months expires, when all unclaimed deposits into the Municipality's bank account will be treated as revenue. This policy is in line with prescribed debt principle as enforced by law.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

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

Services in-kind include services provided by individuals to the Municipality at no charge or where the Municipality has the right to use assets at no charge. The Municipality's recognises services in-kind that are significant to its operations as assets and recognises the related revenue when it is probable that the future economic benefits or service potential will flow to the Municipality and the fair value of the assets can be measured reliably. When the criteria for recognition is satisfied, services in-kind are recognised at their fair value as at the date of acquisition. If the services in-kind are not significant to the Municipality's operations or does not satisfy the criteria for recognition, the Municipality only disclose the nature and type of services in-kind received during the reporting period.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.21 Revenue from non-exchange transactions (continued)

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

1.22 Revenue from exchange transactions

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

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

- > The Municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods.
- > The Municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- > The amount of revenue can be measured reliably.
- > It is probable that the economic benefits or service potential associated with the transaction will flow to the Municipality.
- > The costs incurred or to be incurred in respect of the transaction can be measured reliably.

At the time of initial recognition the full amount of revenue is recognised where the Municipality has an enforceable legal obligation to collect, unless the individual collectability is considered to be improbable. If the Municipality does not successfully enforce its obligation to collect the revenue this would be considered a subsequent event.

Service charges relating to electricity are based on consumption and a basic charge as per Council resolution. Meters are read on a monthly basis and are recognised as revenue when invoiced. Where the Municipality was unable to take the actual month's reading of certain consumers, a provisional estimate of consumption for that month will be created. 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.

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

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse points per property.

Interest revenue is recognised using the effective interest rate method.

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

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariff. This includes the issuing of licences and permits.

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

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

The amount of revenue arising on a transaction is usually determined by agreement between the Municipality and the purchaser or user of the asset or service. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the Municipality.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.22 Revenue from exchange transactions (continued)

In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

- > The prevailing rate for a similar instrument of an issuer with a similar credit rating;
- > A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction that generates revenue. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

1.23 Related parties

The Municipality resolved to adopt the disclosure requirements as per GRAP 20 – “Related Party Disclosures”.

A related party is a person or an entity:

- > with the ability to control or jointly control the other party,
- > or exercise significant influence over the other party, or vice versa,
- > or an entity that is subject to common control, or joint control.

The following are regarded as related parties of the Municipality:

(a) A person or a close member of that person’s family is related to the Municipality if that person:

- > has control or joint control over the Municipality.
- > has significant influence over the Municipalities. Significant influence is the power to participate in the financial and operating policy decisions of the Municipality.
- > is a member of the management of the Municipality or its controlling entity

(b) An entity is related to the Municipality if any of the following conditions apply:

- > the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others).
- > one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member).
- > both entities are joint ventures of the same third party.
- > one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- > the entity is a post-employment benefit plan for the benefit of employees of either the Municipality or an entity related to the Municipality. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity.
- > the entity is controlled or jointly controlled by a person identified in (a).
- > a person identified in (a) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the Municipality. A person is considered to be a close member of the family of another person if they:

- (a) are married or live together in a relationship similar to a marriage; or
- (b) are separated by no more than two degrees of natural or legal consanguinity or affinity.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.23 Related parties (continued)

Management (formerly known as “Key Management”) includes all persons having the authority and responsibility for planning, directing and controlling the activities of the Municipality, including:

- (a) all members of the governing body of the Municipality;
- (b) a member of the governing body of an economic entity who has the authority and responsibility for planning, directing and controlling the activities of the Municipality;
- (c) any key advisors of a member, or sub-committees, of the governing body who has the authority and responsibility for planning, directing and controlling the activities of the Municipality; and
- (d) the senior management team of the Municipality, including the chief executive officer or permanent head of the Municipality, unless already included in (a).

Management personnel include:

- (a) All directors or members of the governing body of the Municipality, being the Executive Mayor, Deputy Mayor, Speaker and members of the Mayoral Committee.
- (b) Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting Municipality being the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

Remuneration of management includes remuneration derived for services provided to the Municipality in their capacity as members of the management team or employees. Benefits derived directly or indirectly from the Municipality for services in any capacity other than as an employee or a member of management do not meet the definition of remuneration. Remuneration of management excludes any consideration provided solely as a reimbursement for expenditure incurred by those persons for the benefit of the Municipality.

The Municipality operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the Constitutional independence of all three spheres of government in South Africa, only parties within the same sphere of government will be considered to be related parties. Only transactions with such parties which are not at arm’s length and not on normal commercial terms are disclosed.

1.24 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in a form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003). Unauthorised expenditure is accounted for as an expense (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.25 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), the Public Office Bearers Act, and (Act. No. 20 of 1998) or is in contravention of the Municipality’s Supply Chain Management Policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.26 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and could have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.27 Contingent liability and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Municipality. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measured with sufficient reliability.

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where the inflow of economic benefits or service potential is probable.

Management judgement is required when recognising and measuring contingent liabilities.

1.28 Significant judgements and sources of estimation uncertainty

In the process of applying the Municipality's accounting policy, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements:

Post retirement benefits

The cost of post retirement medical obligations and long service awards are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Major assumptions used are disclosed in note 3 of the financial statements. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Impairment testing

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

Property, Plant and Equipment

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements. For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and residual values of property, plant and equipment.

- > The useful life of movable assets was determined using the age of similar assets available for sale in the active market. Discussions with people within the specific industry were also held to determine useful lives.
- > Local Government Industry Guides was used to assist with the deemed cost and useful life of infrastructure assets.
- > The Municipality referred to buildings in other municipal areas to determine the useful life of buildings. The Municipality also consulted with engineers to support the useful life of buildings, with specific reference to the structural design of buildings.

Intangible Assets

The useful lives of intangible assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate.

Reference was made to intangibles used within the Municipality and other municipalities to determine the useful life of the assets.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.28 Significant judgements and sources of estimation uncertainty (continued)

Investment Property

The useful lives of investment property are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and valuation of investment property:

- > The Municipality referred to buildings in other municipal areas to determine the useful life of buildings.
- > The Municipality also consulted with professional engineers and qualified valuers to support the useful life of buildings.

Provisions and Contingent Liabilities

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the time value effect is material.

Revenue Recognition

Accounting policies on Revenue from Non-Exchange Transactions and on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the Municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions.). Specifically, whether the Municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed. The management of the Municipality is satisfied that recognition of the revenue in the current year is appropriate.

Provisions

The provision for rehabilitation of the landfill site is recognised as and when the environmental liability arises. The provision is calculated by a qualified environmental engineer. The provision represents the net present value at the reporting date of the expected future cash flows to rehabilitate the landfill site. To the extent that the obligations relate to an asset, it is capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are recognised in the Statement of Financial Performance.

Management referred to the following when making assumptions regarding provisions:

- > Professional engineers were utilised to determine the cost of rehabilitation of landfill sites as well as the remaining useful life of each specific landfill site.
- > Interest rates (investment rate) linked to prime was used to calculate the effect of time value of money.

Provision for Staff leave

Staff leave is accrued to employees according to collective agreements. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave or when employment is terminated.

Provision for Performance bonuses

The provision for performance bonuses represents the best estimate of the obligation at year end and is based on historic patterns of payment of performance bonuses. Performance bonuses are subject to an evaluation by Council.

Componentisation of Infrastructure assets

All infrastructure assets are unbundled into their significant components in order to depreciate all major components over the expected useful lives. The cost of each component is estimated based on the current market price of each component, depreciated for age and condition and recalculated to cost at the acquisition date if known or to the date of initially adopting the standards of GRAP.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.29 Value Added Tax

Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of Value Added Tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

1.30 Capital commitments

Capital commitments disclosed in the financial statements represents the contractual balance committed to capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

1.31 Events after reporting date

If non-adjusting events after the reporting date are material, the Municipality discloses the nature and an estimate of the financial effect.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.32 New standards, amendments to standards and interpretations issued but not yet effective

1.32.1 Effective dates determined

Where a Standard of GRAP has been issued but is not yet effective, the Municipality may resolve to early adopt such a Standard of GRAP if an effective date has been determined by the Minister of Finance.

The Municipality resolved to early adopt the following amended Standards of GRAP which were issued but are not yet effective:

Standard	Description	Effective Date
GRAP 1 (May 2015)	Presentation of Financial Statements	1 April 2016
GRAP 16 (May 2015)	Investment Property	1 April 2016
GRAP 17 (May 2015)	Property, Plant and Equipment	1 April 2016
GRAP 31 (May 2015)	Intangible Assets	1 April 2016
GRAP 103 (May 2015)	Heritage Assets	1 April 2016

The effect of the above-mentioned amended Standards of GRAP which were early adopted is considered insignificant. The amendments to the Standards of GRAP mainly relate to additional disclosure requirements, the removal of encouraged disclosures and the clarification of accounting principles.

The Municipality further resolved not to early adopt Directive 12 - "The Selection of an Appropriate Reporting Framework by Public Entities" (effective 1 April 2018) as this Directive is not applicable to municipalities and will have no impact on the Municipality once it becomes effective.

1.32.2 Effective dates not yet determined

Where a Standard of GRAP has been issued but not yet effective and the Minister of Finance has not yet determined an effective date, the Municipality may select to apply the principles established in that standard in developing an appropriate accounting policy dealing with a particular section or event.

The following Standards of GRAP have been issued but are not yet effective as the Minister of Finance has not yet determined the effective date for application:

1.32.2.1 GRAP 18 - Segment Reporting (Original - February 2011)

The objective of this Standard is to establish principles for reporting financial information by segments.

This Standard will be implemented as part of the Municipal Standard Chart of Accounts Regulation (mSCOA). The estimated date of implementation is 1 July 2017.

Preliminary investigations indicated that, other than additional disclosure, the impact of the Standards on the financial statements will be not be significant.

1.32.2.2 GRAP 20 - Related Party Disclosure (Original - June 2011)

The objective of this Standard is to ensure that a Municipality's financial statements contains the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

The Municipality resolved to develop an accounting policy as set out in note 1.23 and also adopt the disclosure requirements of this Standard.

The impact of this Standard on the financial statements will be minimal.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.2 New standards, amendments to standards and interpretations issued but not yet effective (continued)

1.32.2.3 GRAP 32 - Service Concession Arrangements: Grantor (Original - August 2013)

The objective of this Standard is to prescribe the accounting for service concession arrangements by the grantor and a public sector entity.

Preliminary investigations indicated that, other than possibly additional disclosure, the impact of the Standards on the financial statements will be not be significant.

1.32.2.4 GRAP 108 - Statutory Receivables (Original - September 2013)

The objective of this Standard is to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

The Municipality resolved to develop an accounting policy as set out in note 1.19.

The impact of this Standard on the financial statements will be minimal.

1.32.2.5 GRAP 109 - Accounting by Principles and Agents (Original - July 2015)

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement.

No significant impact is expected as the Municipality's current treatment is already in line with the Standard's requirements.

1.32.2.6 IGRAP 17 - Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset

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

Preliminary investigations indicated that, other than possibly additional disclosure, the impact of the Standards on the financial statements will be not be significant.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
2. Inventory		
Consumable Stores	364,795	550,868
Total Inventory	364,795	550,868
Inventory recognised as an expense during the year	390,719	677,316
Consumable stores materials losses/(gains) identified during stock counts	25,924	119,398

No inventory assets were pledged as security for liabilities.

3. Receivables from Exchange Transactions

Gross Balances

Electricity	5,059,796	3,994,591
Refuse	6,620,821	5,040,914
Other Receivables	5,466,824	4,756,282
House Rentals	2,108,826	1,626,354
Arrangements	758,667	978,462
Irrecoverable Debts	938,370	922,779
Prepaid Expenses	-	494,910
Sundry	1,660,961	733,777
	17,147,441	13,791,787

Less: Allowance for Impairment

Electricity	(3,885,801)	(3,087,035)
Refuse	(6,340,207)	(4,808,903)
Other Receivables	(3,377,295)	(3,118,998)
	(13,603,303)	(11,014,936)

Net Balance

Electricity	1,173,995	907,556
Refuse	280,614	232,011
Other Receivables	2,089,529	1,637,284
	3,544,138	2,776,851

Consumer debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of Receivables from exchange transactions on initial recognition is not deemed necessary.

Reconciliation of Allowance for Doubtful Debts

Balance at Beginning of Year	11,014,936	8,019,920
Contribution to Provision	2,838,578	3,229,858
Debt Impairment Written Off Against Provision	(250,211)	(234,842)
Balance at End of Year	13,603,303	11,014,936

Concentrations of credit risk with respect to Receivables from exchange transactions are limited due to the Municipality's large number of customers. The Municipality's historical experience in collection of receivables falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the Municipality's receivables.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
3. Receivables from Exchange Transactions (continued)		
Ageing of Receivables from Exchange Transactions		
Electricity		
Current (0 -30 days)	738,790	622,280
31 - 60 days	331,284	325,048
61 - 90 days	208,843	155,325
91 - 120 days	192,524	132,943
121 - 150 days	156,530	129,399
> 150 days	3,431,825	2,629,596
	5,059,796	3,994,591
Refuse		
Current (0 -30 days)	273,965	256,425
31 - 60 days	208,866	199,047
61 - 90 days	189,813	178,394
91 - 120 days	180,896	170,300
121 - 150 days	176,018	156,656
> 150 days	5,591,263	4,080,092
	6,620,821	5,040,914
Other Receivables		
Current (0 -30 days)	111,486	109,960
31 - 60 days	84,422	98,752
61 - 90 days	78,720	150,726
91 - 120 days	68,558	80,910
121 - 150 days	66,252	280,552
> 150 days	5,057,386	4,035,382
	5,466,824	4,756,282

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
4. Receivables from Non-Exchange Transactions		
Gross Balances		
Rates	17,414,820	16,000,875
Balance Previously Reported		16,083,411
Correction of Error - Refer to note 42.3		(82,536)
Traffic Fines	1,409,370	728,870
Under Banking of Cash	50,458	50,458
Deposit	581,480	581,480
Other Debtors	31,468	31,468
Total	19,487,596	17,393,151
Less: Allowance for Impairment		
Rates	(14,150,391)	(11,414,832)
Balance Previously Reported		(15,388,988)
Correction of Error - Refer to Note 42.3		3,974,156
Traffic Fines	(1,409,370)	(728,870)
Total	(15,559,761)	(12,143,702)
Net Balance		
Rates	3,264,429	4,586,043
Balance Previously Reported		694,423
Correction of Error - Refer to Note 42.3		3,891,620
Traffic Fines	-	-
Underbanking of Cash	50,458	50,458
Deposits	581,480	581,480
Sundry Deposits	31,468	31,468
Total	3,927,835	5,249,449
Balance Previously Reported		1,357,829
Correction of Error - Refer to note 42.3		3,891,620
Total - Restated		5,249,449

Consumer debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of rates debtors are not performed in terms of GRAP 104 on initial recognition.

Due to the prospective application of the revised IGRAP 1, the Municipality raised a receivable as well as an impairment charge on unpaid fines in the current year.

Concentrations of credit risk with respect to receivables are limited due to the Municipality's large number of customers. The Municipality's historical experience in collection of receivables falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the Municipality's receivables.

Reconciliation of Allowance for doubtful debts

Balance at beginning of year	12,143,702	17,772,202
Contribution to provision	3,506,629	242,070
Reversal of provision	-	(5,774,739)
Debt Impairment written off against provision	(90,570)	(95,831)
Total	15,559,761	12,143,702

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
4. Receivables from Non-Exchange Transactions (continued)		
Aging of Receivables from non-exchange transactions		
Rates		
Current (0 -30 days)	49,123	41,243
31 - 60 days	237,682	212,791
61 - 90 days	175,773	148,825
91 - 120 days	160,169	137,644
121 - 150 days	133,385	131,759
> 150 days	16,658,688	15,328,613
Total	17,414,820	16,000,875
5. Taxes		
VAT Receivable from SARS	1,894,142	4,223,471
VAT Receivable (In suspense)	1,666,750	830,980
Balance Previously Reported		297,618
Correction of Error - Refer to Note 42.4		533,362
VAT Payable (In suspense)	(209,825)	(614,712)
VAT Output in suspense	(1,398,559)	(1,590,863)
Less: VAT on Provision for Debt Impairment	1,188,734	976,151
	3,351,067	4,439,739
As Previously Reported		3,906,377
Correction of Error Restatement - Note 43.4		533,362
Restated Balance as at 30 June		4,439,739
6. Cash and Cash Equivalents		
Cash and cash equivalents consist of:		
Call Investment Deposits	45,611,563	33,052,221
Current Accounts	6,097,407	751,754
Cash Floats	6,906	1,531
	51,715,876	33,805,506
Cash and cash equivalents comprise cash held and short term deposits. The carrying amount of these assets approximates their fair value.		
The Municipality has the following bank accounts:		
Current Accounts		
First National Bank - Acc no 62159933772 (Primary bank account)	1,075,151	649,930
First National Bank - Acc no 62312151848 (Petty Cash Account)	2,002	2,034
Standard Bank - Acc no 280642407 (Revenue Account)	5,020,254	99,822
Total	6,097,407	751,786
First National Bank - Acc no 62159933772 (Primary bank account)		
Cash book balance at beginning of year	649,930	906,959
Cash book balance at end of year	237,682	649,930
Bank statement balance at beginning of year	496,715	1,309,913
Bank statement balance at end of year	1,075,151	496,715

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
6. Cash and Cash Equivalents (continued)		
First National Bank - Acc no 62312151848 (Petty Cash Account)		
Cash book balance at beginning of year	2,034	(25)
Cash book balance at end of year	6,906	2,034
Bank statement balance at beginning of year	2,034	(25)
Bank statement balance at end of year	2,002	2,034
Standard Bank - Acc no 280642407 (Revenue Account)		
Cash book balance at beginning of year	99,822	142,056
Cash book balance at end of year	5,020,254	99,822
Bank statement balance at beginning of year	99,822	142,056
Bank statement balance at end of year	5,020,254	99,822
Call Investment Deposits		
Standard Bank - Acc no 388497173001 - Elundini Expanded Public Works	1,190,809	1,136,837
Standard Bank - Acc no 388492554001 - Elundini Housing	1,182	1,156
Standard Bank - Acc no 388497165001 - Elundini Voting Station	1,003,629	317,412
Standard Bank - Acc no 388493410002 - FMG	2,194,258	514,643
Standard Bank - Acc no 388492570001 - Housing Pilot	2,207	2,159
Standard Bank - Acc no 388492716001 - Katlehong Planning	28	28
Standard Bank - Acc no 388492406001 - Leave Reserve	12,755	12,480
Standard Bank - Acc no 388493410001 - LED	190,586	183,727
Standard Bank - Acc no 388494255001 - Library	2,127	2,082
Standard Bank - Acc no 388493003001 - Maclear Greenfields	1,241	1,215
Standard Bank - Acc no 388492325001 - MSIG	1,714,111	711,328
Standard Bank - Acc no 388494387001 - MSP	1,835	1,764,266
Standard Bank - Acc no 388490810001 - NER	2,679,564	1,351,184
Standard Bank - Acc no 388492759001 - Revolving Fund	322	322
Standard Bank - Acc no 388493518001 - Tourism	606,958	583,042
FNB - Acc no 62189194170 - Equitable Share	3,560,468	19,575
FNB - Acc no 62246726197 - Furniture Management Project	30,857	29,088
FNB - Acc no 62246719176 - Hawkers Stalls	1,357	1,279
FNB - Acc no 62189180011 - MIG	3,716,548	10,601,024
FNB - Acc no 62268632934 - Ward Functions	47,016	45,043
FNB - Acc no 62314984106 - Community Participation	863	1,643
FNB - Acc no 62284785303 - Internal Road Reserve	15,992	15,555
FNB - Acc no 62284785121 - Working Capital Reserve	27,368,094	15,162,897
FNB - Acc no 62411792353 - Public Works	25,420	25,014
FNB - Acc no 62378875226 - Mayoral Investment Account	493,589	477,697
FNB - Acc no 62467970052 - Business Survey	96,905	90,525
FNB - Acc no 62543909777 - ELM DBSA Bank	5	1,000
FNB - Acc 62557779322 - Joe Gqabi	646,269	-
	45,604,995	33,052,221

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

7. Property, Plant and Equipment

30 June 2016

Reconciliation of Carrying Value

	Cost				Accumulated Depreciation					Carrying Value	
	Opening Balance	Additions	Disposals	Transfer to Capital Assets	Closing Balance	Opening Balance	Depreciation Charge	Impairment Charge / (Reversal)	Disposals		Closing Balance
	R	R	R	R	R	R	R	R	R		R
Land and Buildings	76,384,797	11,029,690	(30,503)	-	87,383,984	4,032,863	888,257	(28,094)	-	4,893,026	82,490,958
Land	6,765,100	-	-	-	6,765,100	-	-	-	-	-	6,765,100
Buildings	42,214,818	-	-	3,492,428	45,707,246	2,077,324	447,136	-	-	2,524,460	43,182,786
Capitalised Restoration Costs	6,161,111	2,013,803	(30,503)	-	8,144,411	1,955,539	441,121	(28,094)	-	2,368,566	5,775,845
Work in Progress	21,243,768	9,015,887	-	(3,492,428)	26,767,227	-	-	-	-	-	26,767,227
Infrastructure	401,340,843	25,989,342	(123,222)	-	427,206,963	167,890,328	20,576,367	-	(12,784)	188,453,911	238,753,052
Electricity	59,076,687	-	(123,222)	1,139,329	60,092,794	8,019,384	1,535,114	-	(12,784)	9,541,714	50,551,080
Roads, Pavements, Bridges & Storm Water	322,226,943	-	-	17,401,492	339,628,435	159,870,944	19,041,253	-	-	178,912,197	160,716,238
Work in Progress	20,037,213	25,989,342	-	(18,540,821)	27,485,734	-	-	-	-	-	27,485,734
Lease Assets	839,008	655,334	(556,593)	-	937,749	817,844	66,169	-	(538,253)	345,760	591,989
Office Equipment	839,008	655,334	(556,593)	-	937,749	817,844	66,169	-	(538,253)	345,760	591,989
Other Assets	43,491,095	6,095,164	(1,113,214)	-	48,473,045	25,251,771	6,844,641	-	(853,040)	31,243,372	17,229,673
Furniture & Fittings	4,438,642	868,387	-	-	5,307,029	2,663,663	429,202	-	-	3,092,865	2,214,164
Motor Vehicles	19,405,300	2,119,674	(1,103,126)	-	20,421,848	10,481,938	3,586,636	-	(846,783)	13,221,791	7,200,057
Computer Equipment	4,312,939	1,052,799	(10,087)	-	5,355,651	2,425,217	801,640	-	(6,257)	3,220,600	2,135,051
Plant and Machinery	15,229,609	2,054,304	-	-	17,283,913	9,680,953	2,027,163	-	-	11,708,116	5,575,797
Security	104,605	-	(1)	-	104,604	-	-	-	-	-	104,604
Work in Progress	-	-	-	-	-	-	-	-	-	-	-
	522,055,743	43,769,530	(1,823,532)	-	564,001,741	197,992,806	28,375,434	(28,094)	(1,404,077)	224,936,069	339,065,672

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

7. Property, Plant and Equipment (continued)

30 June 2015

Reconciliation of Carrying Value

	Cost					Accumulated Depreciation					Carrying Value
	Opening Balance	Additions	Disposals	Transfer to Capital Assets	Closing Balance	Opening Balance	Depreciation Charge	Impairment Charge / (Reversal)	Disposals	Closing Balance	
	R	R	R	R	R	R	R	R	R	R	R
Land and Buildings	56,966,837	19,417,960	-	-	76,384,797	3,429,999	617,659	(14,795)	-	4,032,863	72,351,934
Land	6,765,100	-	-	-	6,765,100	-	-	-	-	-	6,765,100
Buildings	41,548,943	-	-	665,875	42,214,818	1,594,045	483,279	-	-	2,077,324	40,137,494
Capitalised Restoration Costs	3,308,086	2,853,025	-	-	6,161,111	1,835,954	134,380	(14,795)	-	1,955,539	4,205,572
Work in Progress	5,344,708	16,564,935	-	(665,875)	21,243,768	-	-	-	-	-	21,243,768
Infrastructure	377,200,268	24,140,575	-	-	401,340,843	142,840,873	25,049,455	-	-	167,890,328	233,450,515
Electricity	58,104,085	-	-	972,602	59,076,687	6,510,786	1,508,598	-	-	8,019,384	51,057,303
Roads, Pavements, Bridges & Storm Water	301,335,781	-	-	20,891,162	322,226,943	136,330,087	23,540,857	-	-	159,870,944	162,355,999
Work in Progress	17,760,402	24,140,575	-	(21,863,764)	20,037,213	-	-	-	-	-	20,037,213
Lease Assets	839,008	-	-	-	839,008	631,664	186,180	-	-	817,844	21,164
Office Equipment	839,008	-	-	-	839,008	631,664	186,180	-	-	817,844	21,164
Other Assets	40,701,744	4,025,066	(1,235,715)	-	43,491,095	19,964,672	6,047,722	-	(760,623)	25,251,771	18,239,324
Furniture & Fittings	4,191,134	304,824	(57,316)	-	4,438,642	2,090,011	622,028	-	(48,376)	2,663,663	1,774,979
Motor Vehicles	18,049,698	2,300,644	(945,042)	-	19,405,300	8,312,947	2,705,827	-	(536,836)	10,481,938	8,923,362
Computer Equipment	3,378,642	971,788	(37,491)	-	4,312,939	1,714,984	745,677	-	(35,444)	2,425,217	1,887,722
Plant and Machinery	14,111,882	447,810	(195,866)	865,783	15,229,609	7,846,730	1,974,190	-	(139,967)	9,680,953	5,548,656
Security	104,605	-	-	-	104,605	-	-	-	-	-	104,605
Work in Progress	865,783	-	-	(865,783)	-	-	-	-	-	-	-
	475,707,857	47,583,601	(1,235,715)	-	522,055,743	166,867,208	31,901,016	(14,795)	(760,623)	197,992,806	324,062,937

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand 2016 2015

8. Investment Property

	Carrying Value	Carrying value
Investment property	<u>34,969,098</u>	<u>35,046,281</u>

The movement in investment properties is reconciled as follows:

Opening Carrying Value	35,046,282	35,458,903
Cost	35,503,196	35,844,696
Accumulated Depreciation	(456,914)	(385,793)
Disposals	-	(341,500)
Cost	-	(341,500)
Accumulated Depreciation	-	-
Depreciation for the Period	(77,184)	(71,121)
Closing Carrying Value	34,969,098	35,046,282
Cost	35,503,196	35,503,196
Accumulated Depreciation	(534,098)	(456,914)

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

An income of R 1 311 398 (30 June 2015 - R1 703 501) was identified on these investment properties and was recognised as revenue from rental of facilities.

Operating expenses that enabled the municipality to generate economic benefits as well as maintain the standards of the facilities were identified as R 318 (30 June 2015 - R 112 563).

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand 2016 2015

9. Intangible Assets

	Carrying Value	Carrying Value
Computer Software	<u>226,642</u>	<u>287,449</u>

The movement in Intangible Assets is reconciled as follows:

Opening Carrying Value	287,449	347,172
Cost	418,065	418,065
Accumulated Depreciation	(130,616)	(70,893)
Amortisation for the Period	<u>(60,807)</u>	<u>(59,723)</u>
Closing Carrying Value	226,642	287,449
Cost	418,065	418,065
Accumulated Depreciation	(191,423)	(130,616)

No intangible asset were assessed having an indefinite useful life.

There are no internally generated intangible assets at reporting date.

There are no intangible assets whose title is restricted.

There are no intangible assets pledged as security for liabilities

There are no contractual commitments for the acquisition of intangible assets.

10. Deferred Revenue

Rental of SASSA Building	516,680	664,494
Less: Current Portion Transferred to Current Liabilities	<u>(159,403)</u>	<u>(147,814)</u>
Total Long-term Deferred Revenue	<u>357,277</u>	<u>516,680</u>

The South African Social Security Agency (SASSA) is leasing a building from Elundini Local Municipality. As per the rental agreement, SASSA incurred expenditure on their own account to upgrade the building in exchange to pay R16 089 per month less rentals than the market rental asking price. The deferred revenue will un-wind over the period of the lease agreement, which is 7 years.

11. Consumer Deposits

Electricity	302,048	298,361
Housing Rental	<u>86,037</u>	<u>63,466</u>
	<u>388,085</u>	<u>361,827</u>

The fair value of consumer deposits approximate their carrying value. Interest is not paid on these amounts.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
12. Employee Benefit Obligations		
Current Employee Benefits		
Post Retirement Medical Obligation	108,540	149,520
Long-Service Provisions	194,459	248,298
Accrued Bonuses	1,629,294	1,474,940
Performance Bonuses	4,932,993	2,630,270
Staff Leave	3,534,379	3,713,012
Non-current employee benefits		
Post Retirement Medical Obligation	1,404,817	1,648,694
Long-Service Provisions	2,615,076	2,169,172
Total	14,419,558	12,033,906
Non-current Liabilities	4,019,893	3,817,866
Current Liabilities	10,399,665	8,216,040
Total	14,419,558	12,033,906
Accrued Bonuses		
Opening Balance	1,474,940	1,365,344
Contribution During the Year	3,459,734	3,166,594
Payments Made	(3,305,380)	(3,056,998)
Closing Balance	1,629,294	1,474,940
Bonuses are being paid to all municipal staff, excluding the Chief Financial Officer who elected not to structure within package. The balance at year end represent to portion of the bonus that have already vested for the current salary cycle.		
Performance Bonuses		
Opening Balance	2,630,270	2,448,659
Contribution During the Year	2,769,682	529,217
Payments Made	(466,959)	(347,606)
Closing Balance	4,932,993	2,630,270
Performance bonuses are being paid to Municipal Manager, Directors, Contract Workers and other Senior Managers after an evaluation of performance.		
Staff Leave		
Opening Balance	3,713,012	3,782,007
Contribution During the Year	(39,787)	268,043
Payments Made	(138,846)	(337,038)
Closing Balance	3,534,379	3,713,012

Bonuses are being paid to all municipal staff, excluding the Chief Financial Officer who elected not to structure within package. The balance at year end represent to portion of the bonus that have already vested for the current salary cycle.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand 2016 2015

12. Employee Benefit Obligations (continued)

Post Retirement Medical Benefits

The movement in Post Retirement Medical Benefits are Reconciled as Follows:

Opening Balance	1,798,214	1,882,633
Contribution During the Year	146,323	157,076
Payments Made	(149,520)	(177,880)
Actuarial Gain	(281,660)	(63,615)
Total Balance at Year-End	<u>1,513,357</u>	<u>1,798,214</u>
Less Current Portion	(108,540)	(149,520)
Total	<u>1,404,817</u>	<u>1,648,694</u>

Staff leave accrued to employees according to a collective agreement. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave or when employment is terminated.

Continuation Members	4	4
Total	<u>4</u>	<u>4</u>

The Municipality makes monthly contributions for health care arrangements to the following medical aid schemes:

Bonitas
LA Health

	2016 %	2015 %
Key Actuarial Assumptions used are as follows:		
i) Interest Rates		
Discount Rate	8.76	8.48
Health Care Cost Inflation Rate	7.90	7.64
Net Effective Discount Rate	0.80	0.79

ii) Mortality rates

SA85-90 (Mixed) Ultimate

iii) Actuarial Valuation Method

The Projected Unit Credit Method has been used to value the liabilities.

The liability in respect of past service recognised in the Statement of Financial Position is as follows:

	Contribution members R	Present value of fund obligations R
30 June 2016	1,513,357	1,513,357
30 June 2015	1,798,214	1,798,214
30 June 2014	1,882,633	1,882,633
30 June 2013	1,877,451	1,877,451
30 June 2012	1,777,306	1,777,306

The Municipality has elected to recognise the full increase in this defined benefit liability immediately as per GRAP 25.

Experience adjustments were calculated as follows:

	Liabilities (Gain)/Loss	Assets Gain/(Loss)
30 June 2016	(28,000)	-
30 June 2015	(125,000)	-
30 June 2014	6,000	-
30 June 2013	77,000	-
30 June 2012	(34,000)	-

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

2016

2015

12. Employee Benefit Obligations (continued)

Sensitivity Analysis on the Accrued Liability

Assumption	Total liability	% change
	R m	
Liability	1,513	
Health Care Inflation		
+ 1%	1,649	8.99
- 1%	1,396	-7.73
Discount Rate		
+ 1%	1,398	-7.60
- 1%	1,650	9.05
Post-Retirement Mortality		
- 1 year	1,572	3.90

Sensitivity Analysis on the Interest Costs

Assumption	Total liability	% change
	R m	
Liability	127,900	
Health Care Inflation		
+ 1%	139,800	9.30
- 1%	117,600	-8.05
Discount Rate		
+ 1%	131,300	2.66
- 1%	123,900	-3.13
Post-Retirement Mortality		
- 1 year	133,100	4.07

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
12. Employee Benefit Obligations (continued)		
Long Service Awards		
Balance 1 July	2,417,470	2,285,605
Contribution for the Year	565,193	503,280
Expenditure for the Year	(126,300)	(146,775)
Actuarial (Gain)/Loss	(46,828)	(224,640)
Total Long Service 30 June	2,809,535	2,417,470
Less: Transfer of Current Portion	(194,459)	(248,298)
Balance 30 June	2,615,076	2,169,172

The Long Service Bonus plans are defined benefit plans. Long service awards were calculated for 219 employees, but they are not all eligible for payment in the same year.

Key Actuarial Assumptions used are as follows:	2016 %	2015 %
i) Interest Rates		
Discount Rate	8.49	7.99
General Salary Inflation (Long-Term)	7.15	7.10
Net Effective Discount Rate applied to Salary-Related Long Service Bonuses	1.25	0.83

The discount rate used is a composite of all government bonds and is calculated using a technique known as "bootstrapping".

ii) Actuarial Valuation Method

The Projected Unit Credit Method has been used to value the liabilities.

The liability in respect of past service recognised in the Statement of Financial Position is as follows:

	Present value of fund obligations R
30 June 2016	2,809,535
30 June 2015	2,417,470
30 June 2014	2,285,606
30 June 2013	1,866,498
30 June 2012	2,249,029

The Municipality has elected to recognise the full increase in this defined benefit liability immediately as per GRAP 25.

Experience adjustments were calculated as follows:

	Liabilities (Gain)/Loss	Assets Gain/(Loss)
30 June 2016	157,004	-
30 June 2015	(14,772)	-
30 June 2014	181,908	-
30 June 2013	(352,275)	-
30 June 2012	68,809	-

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

2016

2015

12. Employee Benefit Obligations (continued)

Sensitivity Analysis on the Unfunded Accrued Liability

Assumption	Total liability	% change
	R m	
Liability	2,810	
General Salary Inflation		
+ 1%	2,986	6.26
- 1%	2,651	-5.66
Discount Rate		
+ 1%	2,644	-5.91
- 1%	2,997	6.65
Average Retirement Inflation		
- 2 year	2,562	-8.83
+ 2 year	3,098	10.25
Withdrawal Rates		
- 50%	3,415	21.53

Sensitivity Analysis on the future Current-service and Interest Costs

Assumption	Total liability	% change
	R m	
Liability	639,100	
General Salary Inflation		
+ 1%	684,000	7.03
- 1%	598,700	-6.32
Discount Rate		
+ 1%	625,900	-2.07
- 1%	653,800	2.30
Average Retirement Age		
- 2 years	593,600	-7.12
+ 2 years	691,000	8.12
Withdrawal Rates		
- 50%	829,100	29.73

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand 2016 2015

12. Employee Benefit Obligations (continued)

Retirement Funds

The Cape Retirement Fund is a multi-employer plans. This means that there are multiple local authorities that participate in this fund. In terms of GRAP 25, these multi-employer plans are defined as defined benefit plans. GRAP 25 also state that when sufficient information is not available to use defined benefit accounting for a multi-employer plan, an entity will account for the plan as if it were a defined contribution plan.

The Municipality requested detailed employee and pensioner information as well as information on the Municipality's share of the funds' assets from the fund administrator. The fund administrator confirmed that assets of the funds are not split per participating employer. Therefore, the Municipality is unable to determine the value of the plan assets as defined in GRAP 25.

As part of the Municipality's process to value the defined benefit liabilities, the Municipality requested pensioner data from the fund administrators. The fund administrators claim that the pensioner data to be confidential and were not willing to share the information with the Municipality. Without detailed pensioner data the Municipality was unable to calculate a reliable estimate of the accrued liability in respect of pensioners who qualify for a defined benefit pension.

Therefore, although the Cape Retirement Fund is defined as a defined benefit plan, it will be accounted for as defined contribution plan.

Defined Contribution Funds

The contribution rate payable is 9% by members and 18% by Council. The last actuarial valuation performed for the year ended 30 June 2014 revealed that the fund was in a sound financial position with a funding level of 99.9% (30 June 2013 - 100.2%).

Contributions paid recognised in the Statement of Financial Performance	-	1,514,093
---	---	-----------

Defined Contribution Funds

Council contributes to the SALA Pension Fund, SAMWU National Provident Fund and National Fund Municipal Managers which are defined contribution funds. The retirement benefit fund is subject to the Pension Fund Act, 1956, with pension being calculated on the pensionable remuneration paid. Current contributions by Council are charged against expenditure on the basis of current service costs.

Contributions paid recognised in the Statement of Financial Performance:

SALA Pension Fund	-	753,422
SAMWU National Provident Fund	-	2,855,894
National Fund Municipal Managers	-	161,706
	-	3,771,022

13. Payables from Exchange Transactions

Trade payables	15,917,562	19,878,398
Sundry creditors	216,797	315,998
Payments Received in Advanced - contract in process	533,349	1,327,191
Retention	5,931,162	4,621,089
Bursary Scheme	27,194	17,329
Deposits Received	324,257	175,483
Unknown Receipts	147,281	109,571
Joe Qgabi District Municipality	1,462,692	2,415,231

Total Payables from Exchange Transactions	24,560,294	28,860,290
--	-------------------	-------------------

As Previously Reported		28,339,619
Correction of Error Restatement - Note 43.2		520,679

Restated Balance as at 30 June		28,860,298
---------------------------------------	--	-------------------

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand 2016 2015

13. Payables from Exchange Transactions (continued)

Payables are being recognised net of any discounts. Payables are being paid within 30 days as prescribed by the MFMA. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of payables on initial recognition is not deemed necessary. Included in sundry deposits are hall rentals.

Deposits amounting to R581 480 (2015 - R581 480) serve as security for Payables. The remainder of the Payables are unsecured.

The Municipality did not default on any of their payments.

14. Unspent Conditional Grants and Receipts

Unspent Conditional Grants and Receipts Comprises of:

Unspent Conditional Grants and Receipts

Business Survey	-	74,018
Elundini Housing Fund	-	71,732
Elundini Library Fund	426,821	340,179
Municipal Infrastructure Grant	-	242,491
Voter Station Grant	1,000,000	883,908
	<u>1,426,821</u>	<u>1,612,328</u>
Disclosed as Follow:		
Unspent Grants	1,426,821	1,612,328
Unpaid Grants	-	(46,008)
	<u>1,426,821</u>	<u>1,566,320</u>

Unspent grants can mainly be attributed to projects that are work in progress on the relevant financial year-ends.

The Unspent Grants are cash-backed by term deposits. The Municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.

15. Finance leases

At amortised cost

Capitalised Lease	493,181	68,594
-------------------	---------	--------

Capital lease liabilities at amortised cost are calculated at 20.45% interest rate, with maturity date of 31 March 2019

Non-current liabilities

At amortised cost	344,674	-
-------------------	---------	---

Current liabilities

At amortised cost	148,507	68,594
-------------------	---------	--------

Minimum lease payments

Payable within one year	235,954	69,737
Payable within two to five years	412,919	-
Subtotal	648,873	69,737
Less: Future finance obligations	(155,692)	(1,143)
	<u>493,181</u>	<u>68,594</u>

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand 2016 2015

16. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Contribution for the year	Addition to Liability	Disposal of liability	Total
Provision for Rehabilitation of Landfill-Sites	8,658,969	513,963	2,013,803	(30,503)	11,156,232

Reconciliation of provisions - 2015

	Opening Balance	Contribution for the year	Addition to Liability	Total
Environmental rehabilitation	5,516,947	288,997	2,853,025	8,658,969

The calculation for the rehabilitation of the landfill site provision was compiled by an external specialist who was used to perform a valuation of the estimated annual cost of closure and rehabilitation (recurring costs) for the following landfill sites:

- Mount Fletcher	2,952,812	2,227,819
- Maclear	4,397,809	2,809,976
- Ugie	3,805,612	3,621,176
Total	11,156,233	8,658,971

A retrospective calculation of time value of money, based on an average weighted investment rate of prime less 4%, was used. This rate used is also within the inflation target range of the South African Reserve Bank of between 3% to 6%.

No landfill sites are scheduled for closure in the year that would require closure by capping. All sites are to remain operational. Allowance has been made for survey, environmental and community issues in providing cover to the existing waste to a suitable standard.

The quantity of waste deposited on the Elundini sites has been given as 785 tonnes per year (i.e. 3 tonnes a day) for Mt Fletcher and 1800 tonnes per year (i.e. 7 tonnes as day) for Maclear. This will classify the two sites as Communal in size. It is assumed the Ugie site has been classified as Communal. No leachate problems have been reported from the Mt Fletcher and Ugie sites, but the classification indicates Maclear has a leachate issue.

In calculating the provision for rehabilitation, the following four items have been included:

- Direct Contract Cost
- Indirect Professional Fees
- Indirect Disbursements
- Escalation

There are currently three landfill sites in Elundini which service Mount Fletcher, Maclear and Ugie, hence they are named after the town which they service.

Mt Fletcher Landfill Site:

Size of operational landfill area?	5 000 m ² (Trench)
Is the site licensed?	Yes
What is the classification of the site	G:C:B
Is the site operational?	Yes
If the site is operational, is there an expected closure date?	No
If the site is operational, what is the annual tonnage of waste deposited on site?	785 tons
If the site is not operational what was the date the site was last operated?	N/A
Is there any hazardous waste on site?	Previous occurrences of medical waste took place, EHP from District Municipality assist us by monitoring the site

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
16. Provisions (continued)		
Are there any existing boreholes for monitoring?	No	
Is there a monitoring program in place?	N/A	
Are there any geographical features that should be taken into consideration?	No	
Status of cover material?	N/A. Trench System, cover material available from trenching process.	
Maclear Landfill Site:		
Size of operational landfill area?	12 000 m ² (Platform)	
Is the site licensed?	Yes	
What is the classification of the site?	G:C:B	
Is the site operational?	Site is now a transfer station	
If the site is operational, is there an expected closure date?	No	
If the site is operational, what is the annual tonnage of waste deposited on site?	1 800 tons	
If the site is not operational what was the date the site was last operated?	N/A	
Is there any hazardous waste on site?	Previous occurrences of medical waste took place, EHP from District Municipality assist us by monitoring the site	
Are there any existing boreholes for monitoring?	Yes	
Is there a monitoring program in place?	No, DWAF take samples periodically. We have request the District Municipality to assist with a monitoring program as they currently take samples of potable water in the area.	
Are there any geographical features that should be taken into consideration?	Spring on adjacent farm	
Status of cover material?	Cover material on site, volume unknown	
Ugie Landfill Site:		
Size of operational landfill area?	16 000 m ² (Platform)	
Is the site licensed?	Yes	
What is the classification of the site?	G:S:C	
Is the site operational?	Yes	
If the site is operational, is there an expected closure date?	No	
If the site is operational, what is the annual tonnage of waste deposited on site?	Estimate 120,000 tons per year from vehicle counts	
If the site is not operational what was the date the site was last operated?	N/A	
Is there any hazardous waste on site?	There have been small amounts deposited in the past, EHP from District Municipality assist us by.	
Are there any existing boreholes for monitoring?	Yes	
Is there a monitoring program in place?	No, DWAF take samples periodically. We have request the District Municipality to assist with a monitoring program as they currently take samples of potable water in the area.	
Are there any geographical features that should be taken into consideration?	No	
Status of cover material?	Cover material on site, volume unknown.	

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
17. Service Charges		
Electricity	21,613,619	19,260,513
Refuse Removal	4,412,505	4,224,441
Less: Rebates	(5,218,882)	(4,504,297)
	20,807,242	18,980,657

Rebates can be defined as any income that the Municipality is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.

18. Plant Income

Earnings prior to expenditure	8,402,822	5,023,129
Less: Employee Related Costs	(1,122,018)	(1,089,348)
Less: Depreciation and Amortisation	(1,670,243)	(1,197,853)
Less: Repairs and Maintenance	(2,734,287)	(2,128,652)
Less: General Expenses	(2,876,274)	(607,276)
Total Plant Income	-	-

Plant Income is associated with roads construction for MIG projects.

19. Rental of Facilities and Equipment

Facilities and Equipment

Rental of Facilities	1,311,398	1,250,027
Rental of Equipment	47,271	4,792
Deferred Rental Income	193,068	193,068
	1,551,737	1,447,887

20. Licences and Permits

Driving Licence	281,730	346,345
Learners Driving Licences	278,475	383,471
Number Plates	903	16,082
Public Drivers Permits	126,888	221,904
Registrations	1,176,982	1,005,501
	1,864,978	1,973,303

21. Agency Services

Water and Sanitation Agency Function	-	1,414,350
--------------------------------------	---	-----------

The agency service relates to the water and sanitation function conducted on behalf of the Joe Gqabi District Municipality. The agency service includes a fixed fee for the administration of accounts as well as a 15% fee on all collections made.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
22. Other Income		
Commission Received	1,740	71,410
Insurance Claims Received	278,895	239,320
Tender Document Sales	113,521	174,087
LGSETA Claims Received	128,549	101,506
Pound Fees	127,545	76,717
Cemetery Fees	26,099	22,634
Building Plan and Inspection Fees	113,830	83,477
Auction Sales	66,466	61,082
Prescribed Debt	73,514	149,736
Photocopies	5,900	26,159
Sundry Income	(13,116)	239,797
	922,943	1,245,925

Prescribed Debt includes unclaimed deposits and receipts older than three years recognised as income.

23. Property Rates

Rates Received

Rateable Land and Buildings	17,344,555	16,405,682
Less: Rebates	(2,761,729)	(2,744,392)
	14,582,826	13,661,290

Rates are levied annually and monthly. Monthly rates are payable by the last day of each month and annual rates are payable before 30 September. Interest is levied at the prime rate on outstanding monthly rates.

Rebates can be defined as any income that the Municipality is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
24. Government Grants and Subsidies		
Operating Grants		
Equitable Share	132,110,000	101,878,000
Municipal Systems Improvement Grant	930,000	934,000
Municipal Finance Management Grant	1,600,000	1,600,000
Public Works	-	4,884,637
Integrated National Electrification Programme (INEP)	20,050,450	5,149,550
Other Grants	2,805,626	2,849,323
	157,496,076	117,295,510
Capital grants		
Municipal Infrastructure Grant	33,234,491	41,923,463
	33,234,491	41,923,463
Total Grants and Subsidies	190,730,567	159,218,973
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional Grants Received	58,620,567	57,340,973
Unconditional Grants Received	132,110,000	101,878,000
	190,730,567	159,218,973
The Municipality does not expect any significant changes to the level of grants.		
Revenue recognised per vote as required by Section 123 (c) of the MFMA:		
Equitable Share	132,110,000	101,878,000
Budget & Treasury	2,530,000	2,534,000
Community Services	756,389	517,528
Strategic Planning & Development	792,141	741,795
Technical services	54,542,037	53,547,649
Total Grants	190,730,567	159,218,972
Equitable Share		
Grants Received	132,110,000	101,878,000
Conditions met - Operating	(132,110,000)	(101,878,000)
Closing Unspent Balance	-	-
The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.		
Municipal Infrastructure Grant (MIG)		
Opening Unspent Balance	242,490	5,680,953
Grants Received	32,992,000	36,485,000
Conditions met - Operating	(1,899,600)	(1,824,250)
Conditions met - Capital	(31,334,890)	(40,099,213)
Closing Unspent Balance	-	242,490

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
24. Government Grants and Subsidies (continued)		
Municipal Systems Improvement Grant (MSIG)		
Grants Received	930,000	934,000
Conditions met - Operating	(930,000)	(934,000)
Closing Unspent Balance	-	-
Financial Management Grant (FMG)		
Grants Received	1,600,000	1,600,000
Conditions met - Operating	(1,600,000)	(1,600,000)
Closing Unspent Balance	-	-
Integrated National Electrification Programme (INEP)		
Opening Unspent Balance	50,450	-
Grants Received	20,000,000	5,200,000
Conditions met - Operating	(20,050,450)	(5,149,550)
Closing Unspent Balance	-	50,450
Public Works		
Opening Unspent Balance	-	2,885,298
Grants Received	-	1,999,339
Conditions met - operating	-	(4,884,637)
Closing Unspent Balance	-	-
Other Grants		
Opening Unspent Balance	1,273,351	1,315,044
Grants Received	2,970,036	2,807,630
Conditions met - operating	(2,236,268)	(2,107,528)
Conditions met - capital	(569,358)	(741,795)
Closing Unspent Balance	1,437,761	1,273,351
Various grants were received from other spheres of government.		
25. Fines		
Traffic fines	718,108	298,350
Illegal connection fines	35,962	12,000
Other fines	186,761	24,977
	940,831	335,327

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
26. Employee related costs		
Basary scheme	5,590	28,450
Contribution to Current Employee Benefits - Bonuses Accrued	3,459,735	3,166,596
Contribution to Current Employee Benefits - Staff Leave	1,594,304	2,075,756
Contribution to Current Employee Benefits - Performance Bonuses	2,753,760	529,217
Contribution to Employee Benefits - Long Service Awards	381,782	336,593
Medical Aid Contributions	3,672,123	3,278,713
Pension Fund Contributions	5,617,426	5,298,861
Salaries and Wages	45,009,528	39,557,570
Skills Development Levy	601,863	514,404
Travel, Motor Car, Telephone, Assistance and Other Allowances	8,094,887	6,900,733
UIF Contributions	387,913	358,446
Workmens Compensation	346,091	719,726
Sub-Total	71,925,002	62,765,065
Less: Employee Costs Associated with Plant Income	(1,122,018)	(1,089,348)
Total	70,802,984	61,675,717
As Previously Reported		61,504,881
Correction of Error Restatement - Note 43.2		170,836
Restated Balance as at 30 June		61,675,717
Municipal Manager - K Gashi		
Annual Remuneration	924,629	882,314
Car and Other Allowances	256,771	256,771
Performance Bonuses	63,717	59,940
Contributions to UIF, Medical and Pension Funds	111,721	124,339
	1,356,838	1,323,364
Manager Infrastructure Planning and Development - X Mntonintshi		
Annual Remuneration	711,309	666,722
Car and Other Allowances	272,871	356,299
Performance Bonuses	52,783	39,683
Contributions to UIF, Medical and Pension Funds	90,831	18,056
House Allowance	10,949	-
	1,138,743	1,080,760
Manager Corporate Services - SR Matubatuba		
Annual Remuneration	768,611	717,795
Car and Other Allowances	296,390	388,671
Performance Bonuses	80,183	43,103
Contributions to UIF, Medical and Pension Funds	45,693	12,907
House Allowance	10,058	-
	1,200,935	1,162,476

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
26. Employee related costs (continued)		
Chief Financial Officer - SW Goodall (until 30/06/2014)		
Performance Bonuses	-	44,668
Chief Financial Officer - J Mdeni		
Annual Remuneration	698,685	-
Car Allowance	54,000	-
Contributions to UIF, Medical and Pension Funds	150,318	-
	903,003	-
Manager Strategic Planning and Economic Development - NC Eddie		
Annual Remuneration	654,890	613,993
Car and Other Allowances	272,871	407,465
Performance Bonuses	105,871	39,683
Contributions to UIF, Medical and Pension Funds	1,785	12,039
House Allowance	161,854	-
	1,197,271	1,073,180
Manager Community Services - M Ntaba (until 29/01/2015)		
Annual Remuneration	-	403,079
Car and Other Allowances	-	203,285
Contributions to UIF, Medical and Pension Funds	-	6,860
	-	613,224
27. Remuneration of councillors		
Executive Mayor	789,049	749,768
Speaker	636,148	605,024
Councillors	9,366,501	8,458,839
	10,791,698	9,813,631
In-kind benefits		
The Mayor and Speaker are full-time. They are provided with secretarial support and an office at the cost of the Council.		
28. Debt Impairment		
Bad Debts Written Off	6,132,625	3,234,016
29. Depreciation and Amortisation		
Property, Plant and Equipment	28,375,434	31,901,015
Investment Property	77,184	71,121
Intangible assets	60,807	59,723
Total	28,513,425	32,031,859
Less: Depreciation and Amortisation associated with Plant Income	(1,670,243)	(1,197,853)
	26,843,182	30,834,006

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
30. Repairs and Maintenance		
Infrastructure	4,481,135	5,605,348
Land and Buildings	1,269,490	618,458
Other Assets	2,448,816	1,428,631
Total Repairs and Maintenance	8,199,441	7,652,437
Less: Repairs and Maintenance associated with Plant Income	(2,734,287)	(2,128,653)
Total Repairs and Maintenance	5,465,154	5,523,784
31. Finance Costs		
Interest	907,467	813,969
32. Bulk Purchases		
Electricity	19,064,933	15,058,558
33. Contracted Services		
Solid Waste	2,730,602	2,109,018
34. Operating Grant Expenditure		
Budget & Treasury	2,327,524	2,380,685
Strategic Planning & Development	84,000	696
Technical services	-	4,517,149
Other	21,388,292	-
	23,799,816	6,898,530

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
35. General Expenses		
Advertising	872,713	546,435
Auditors Remuneration	3,142,279	2,860,968
Bank Charges	76,548	79,442
Cleaning	88,055	62,614
Commission Paid	380,580	573,070
Conferences and Seminars	425,571	288,956
Consulting and Professional Fees	5,495,345	7,750,819
Entertainment	669,064	995,352
Fraud Prevention Plan	45,010	45,500
Fuel and Oil	3,232,086	3,029,818
Gifts	31,715	31,740
Insurance	839,402	1,079,746
Job Evaluation	70,918	20,250
Lease Rentals	980,052	351,820
Licence Fees	913,883	536,080
Other Expenses - Deductible	2,759,256	1,677,675
Postage and Courier	35,302	28,903
Printing and Stationery	865,878	852,199
Promotions and Sponsorships	621,561	822,403
Protective Clothing	267,366	323,046
Public Participation	1,471,391	1,987,342
Refuse	201,314	117,332
Relocation Costs	115,920	77,390
Security (Guarding of Municipal Property)	1,191,030	837,960
Small Tools and Equipment	851,541	775,161
Special Programmes	3,666,594	3,732,972
Subscriptions and Membership Fees	469,416	992,459
Telephone and Fax	2,166,704	2,347,292
Town Planning and Property Valuation Fees	12,500	-
Traffic Department Costs	93,710	140,199
Training	1,561,426	1,231,363
Travel - Local	6,898,385	6,718,894
Ward Committees	1,297,005	645,295
Sub-total	41,809,520	41,560,495
Less: General Expenses associated with Plant Income	(2,876,274)	(607,276)
	38,933,246	40,953,219
As Previously Reported		40,680,840
Correction of Error Restatement - Training		216,667
Correction of Error Restatement - Commission Paid		55,712
Restated Balance as at 30 June		40,953,219
36. Gains / (Losses) on Disposal of Assets		
Gains / (Loss) on the Disposal of Investment Property	150,000	(75,623)
Gains / (Loss) on the Disposal of Property, Plant and Equipment	(167,388)	(374,137)
	(17,388)	(449,760)

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
37. Cash generated from operations		
Surplus	30,199,569	28,354,445
Adjustments for:		
Reversal of Impairments	(28,094)	(14,795)
Reversal of Debt Impairment	-	(4,334,116)
Un-winding of Deferred Revenue - Rental Income	(193,068)	(193,068)
(Gain)/Loss on Disposal of Property, Plant and Equipment	167,388	374,137
(Gain)/Loss on disposal of Investment Property	(150,000)	75,623
Debt Impairment	6,132,624	3,234,015
Un-winding of Deferred Revenue - Finance Charges	45,254	56,000
Depreciation and Amortisation	28,513,425	32,031,860
Movement in Employee Benefits - Non-current	202,027	101,745
Movement in Employee Benefits - Current	2,183,626	88,415
Movement in Provisions	513,963	288,997
Changes in Working Capital:		
Inventory	(4,300,011)	4,918,354
Unspent Government Grants	(185,507)	(8,876,634)
Taxes	1,088,672	(2,041,270)
Inventory	186,073	(131,336)
Receivables (both Exchange and Non-Exchange)	(5,578,303)	(379,782)
Unpaid Government Grants	46,036	561,630
	58,843,674	54,114,220
38. Additional Disclosures in Terms of Municipal Finance Management Act		
38.1 SALGA Contributions [MFMA 125 (1)(b)]		
Opening Balance	630,259	-
Council Subscriptions	(630,259)	630,259
Payments in Advance	-	630,259
38.2 Audit Fees [MFMA 125 (1)(c)]		
Opening Balance	-	86,471
Expenditure Incurred	3,142,279	3,915,133
External Audit - Auditor-General	3,142,279	3,915,133
Payments	(3,142,279)	(4,001,604)
Outstanding Balance	-	-
38.3 VAT [MFMA 125 (1)(c)]		
Opening Balance	4,223,471	790,413
Amounts Received During the Year	(9,847,162)	(8,379,060)
Amounts Claimed - Current Year	11,606,976	11,812,118
Outstanding Balance	5,983,285	4,223,471

VAT is payable on the receipt basis. Only once payment is received from the debtors is VAT paid over to SARS. All VAT returns have been submitted by the due date throughout the year.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
38. Additional Disclosures in Terms of Municipal Finance Management Act (continued)		
38.4 PAYE, SDL and UIF [MFMA 125 (1)(c)]		
Current Year Payroll Deductions and Council Contributions Amount Paid - Current Year	12,789,074 (12,789,074)	10,751,252 (10,751,252)
Outstanding Balance	-	-
38.5 Pension and Medical Aid Contributions [MFMA 125 (1)(c)]		
Opening Balance	-	919,934
Current Year Payroll Deductions and Council Contributions Amount Paid - Current Year	15,692,163 (15,692,163)	14,562,798 (15,482,732)
Outstanding Balance	-	-
38.6 Councillors Arrear Accounts [MFMA 124 (1)(b)]		
T Koteli	-	2,170
No Councillor had any arrear account outstanding for more than 90 days at year end.		
38.7 Quotations Awarded - Deviations from SCM		
Deviations from, and ratifications of minor breaches of the Procurement Processes due to Sole Providers, Specialised Services, Emergencies and Variation Orders:		
All the deviations were ratified by the Municipal Manager and reported to Council.		
Section 36(1)(a)(i) - Emergencies	1,465,809	4,358,061
Section 36(1)(a)(ii) - Single Provider	5,539,691	2,595,708
Section 36(1)(a)(iii) - Specialised Services	2,425,007	2,983,668
Section 36(1)(a)(v) - Impractical to Follow Official Procurement Process	6,189,858	7,444,411
Total	15,620,365	17,381,848
Municipal Manager Office	2,870,418	2,570,589
Budget and Treasury Office	1,393,399	5,048,233
Infrastructure Planning and Development	7,300,027	5,526,709
Corporate Services	2,974,817	2,699,187
Strategic Planning and Development	563,065	1,128,565
Community Services	518,640	408,565
Total	15,620,366	17,381,848

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
39. Contingent Liabilities		
Council do have the following contingent liabilities at the end of the financial year 2015/2016:		
A labour related dispute was declared. The SALGBC has found in favour of the applicant and as such has instructed the Council to appoint the applicant to the position of Community Services Manager, effective April 2012. The salary backpay owed to the applicant is R4 198 283. The Municipality has taken the arbitration's award on review at the Labour Court and is awaiting a Court date. The estimated legal costs for appealing this matter is estimated at R100 000.	1,609,317	1,955,497
Amount as previously disclosed		3,106,900
The amount in question has been reduced by the amount paid to the applicant as he is still in the employ of the municipality		(1,151,402)
Restated amount		<u>1,955,498</u>
A labour dispute was declared relating to unpaid employee benefits amounting to R465 892. The matter emanates from their claim for unpaid overtime and standby allowance dating back to 2002. This matter is currently pending litigation and legal costs are estimated at R10 000.	465,892	465,892
Employees were dismissed for various counts of gross misconduct and fruitless and wasteful expenditure. A dispute was been lodged in terms of unfair dismissal and therefore reinstatement. The employees backpay claim was estimated at R920 685. These matters have been concluded through the SALGBC and Labour Court processes and the decisions have favoured the municipality.	-	920,685
A company was contracted to do road repairs in Maclear, but failed to do work to satisfaction of Municipality. The Municipality rightfully retained a certain percentage of the retention fee amounting to an estimate of R950 000. The plaintiff is suing the Municipality for the retention fees. The Municipality has defended the action. The Municipality is now awaiting for its attorneys to give a response to the claim (Plea). Legal fees are estimated at R100 000.	950,000	950,000
The Municipality was sued by two separate plaintiffs for fire that allegedly originated from communal property registered in the name of the Municipality, which spread to the plaintiffs' properties causing damages of R100 000 and R54 000 respectively. The R100 000 claim has since been resolved through the Magistrate's Court in favour of the municipality for lack of a joinder of the Joe Gqabi District Municipality, and the matter has not been re-enrolled. The claim of R54 000 is still pending before the court, although it appears to be dormant. The estimated legal fees is R20 000.	54,000	154,000
The Municipality has been sued by a plaintiff for damages to his vehicle amounting to R85 307. The plaintiff alludes that the damages obtained was due to the Municipality neglecting to maintain its roads. The Municipality is now awaiting for its attorneys to respond to the claim (Plea). Legal fees are estimated at R50 000, given the anticipation that this matter can go to trial.	85,307	85,307
A contractor failed to fulfill its contractual obligations and therefor the Municipality, after following due process, terminated the contract in March 2014. A Summons was received on 23 September 2014 claiming for loss of profit of the said termination amounting to R1 250 000. The Municipality filed an Application challenging the Summons. The matter was recently heard, but judgement was reserved. The Municipality's application was later dismissed. Legal fees are estimated to be R200 000.	1,250,000	1,250,000

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

	2016	2015
--	------	------

39. Contingent Liabilities (continued)

A music production company has applied for a court interdict against the municipality, alleging copyright infringement when an artist's copy of album was given to a competitor to promote, produce and market the artist's music. Furthermore, that in terms of an agreement, the municipality was supposed to give the applicant a right of first option if the artist's music was to be released and distributed in any format for commercial exploitation. They claim to have a right to the artist's profits and royalties, and are claiming damages, the quantum of which will be determined at a later stage and is currently unknown. The estimated legal costs for this court action is R343 130.

- -

An employee has lodged papers in the Labour Court, in which he is seeking the Labour Court to order parity of remuneration among him and his colleagues who, whilst enjoying the same T.A.S.K grade as them, they are however remunerated better than him. The municipality is opposing the matter. The claim is that the employee's remuneration be adjusted to R670 000 with effect from 1 June 2014, to R712 210 with effect from 1 January 2015 and that henceforth the salary be equated to that of the other employees.

231,677 -

Total Estimated Contingent Liabilities

4,646,193 **5,781,381**

40. Unauthorised, Irregular, Fruitless and Wasteful Expenditure

40.1 Unauthorised Expenditure

Unauthorised expenditure consist out of the following:

Opening Balance	8,159,636	5,179,958
Unauthorised Expenditure Current Year - Operating	-	2,979,678
Unauthorised Expenditure Awaiting Approval	8,159,636	8,159,636

Unauthorised expenditure only relates to expenditure in excess of approved budget votes. The Council committee responsible for this expenditure has conducted investigations resolved to recommend to Council for the write off of the amount. Council has not yet discussed the matter.

40.2 Fruitless and Wasteful Expenditure

Fruitless and wasteful expenditure consist out of the following:

Opening Balance	902,052	27,763
Fruitless and wasteful expenditure incurred - Current Year	-	163,904
Fruitless and wasteful expenditure incurred - Prior Years	-	710,385
Fruitless and wasteful expenditure awaiting approval	902,052	902,052

Details of Fruitless and wasteful expenditure incurred:

Interest charged by creditors	-	14,660
Interest and penalties charged by SARS for VAT Audit - period 1 July 2009 to 30 June 2013	-	710,385
Interest and penalties charged by SARS for Payroll Taxes	-	105,167
Fuel dispensing losses relating to the Municipality's road construction plant.	-	44,077
Total	-	874,289

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand 2016 2015

40. Unauthorised, Irregular, Fruitless and Wasteful Expenditure (continued)

40.3 Irregular Expenditure

Irregular expenditure consist out of the following:

Opening Balance	484,148	-
Approved by Council	-	484,148
Less: Amounts recoverable (not condoned)	(9,921)	-
Irregular Expenditure Awaiting Approval	474,227	484,148

Details of Irregular expenditure incurred:

Non-Compliance with Supply Chain Management policy	-	474,227
Error in calculating performance bonus	-	9,921
Recovered by council	(9,921)	-
Total	(9,921)	484,148

The Council Committee responsible for this expenditure has assessed the circumstances surrounding the expenditure and made recommendations to Council to write off the expenditure. Council has not yet set to resolve on the matter.

41. Material Losses

Electricity distribution losses

Kwh Purchased	19,195,003	17,338,832
Less: Kwh Sold	(15,015,557)	(15,034,750)
Kwh losses	4,179,446	2,304,082
% Losses	21.77	13.29
Average cost per Kwh unit (excl VAT)	0.9019	0.7771
Losses in Rand Value	3,769,442	1,790,502

42. Prior Period Errors

42.1 Accumulated Surplus - 1 July 2014

Correction of errors relating to periods prior to 1 July 2014

Payables from Exchange Transactions - refer to note 42.2	(43,909)
Receivables from Exchange Transactions - refer to note 42.3	(62,655)
Receivables from Exchange Transactions - refer to note 42.3	1,440,623
Taxes - refer to note 42.4	499,807

Correction of errors relating to 2014/15

Payables from Exchange Transactions - refer to note 42.2	(272,379)
Deferred tax	(170,836)
Receivables from Exchange Transactoins - refer to note 42.3	(19,882)
Receivables from Exchange Transactoins - refer to note 42.3	2,533,533

Restated Balance

350,100,400

1,833,866

(43,909)

(62,655)

1,440,623

499,807

2,070,436

(272,379)

(170,836)

(19,882)

2,533,533

354,004,702

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand 2016 2015

42. Prior Period Errors (continued)

	2016	2015
42.2 Payables from exchange transactions		28,339,619
Training and commissions expenses not accrued		349,843
Expenses relating to prior 1 July 2014		43,909
Expenses relating to 2014/15		272,379
VAT relating to expenditure not accrued		33,555
Overtime not accrued		170,836
Restated balance		28,860,298

The training and commission expenses relate to expenditure incurred prior to 30 June 2015, but which was not accrued as on 30 June 2015. The reason for the invoices not being accrued is due to the invoices only received after submission date, i.e 31 August 2015.

The overtime relates to overtime worked in June, only paid out in July. No accrual as on 30 June 2015 was raised in this regards.

42.3 Receivables from non-exchange transactions		1,357,829
Rates incorrectly levied		(82,536)
Rates relating to prior 1 July 2014		(62,655)
Rates relating to 2014/15		(19,881)
Incorrect calculation of provision for debt impairment		3,974,156
Error relating to prior 1 July 2014		1,440,623
Error relating to 2014/15		2,533,533
Restated balance		5,249,449

The rates correction relates to one incident where the incorrect property valuation was used when the property rates was calculated.

The incorrect calculation of the provision for debt impairment was due to the incorrect payment percentage being applied to the accounts of the Department of Public Works.

42.4 Taxes		3,906,378
Correction on VAT on retentions		499,806
VAT relating to expenditure not accrued - note 42.2		33,555
Restated balance		4,439,739

In the prior year the Input VAT relating to retentions as on 30 June 2015 was erroneously written off to zero.

43. Capital Commitments

Commitments in Respect of Capital Expenditure:

Infrastructure		
Approved and Contracted for	37,988,400	8,939,690

This expenditure will be financed from:

Government Grants	37,988,400	8,939,690
-------------------	------------	-----------

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand 2016 2015

44. Financial Instruments Disclosure

In accordance with GRAP 104 the following financial instruments carried at amortised cost:

Categories of Financial Instruments

2016

Financial Assets

Receivables from Exchange Transactions	3,544,138	2,776,851
Unpaid Conditional Government Grants and Receipts	-	46,000
Cash and Cash Equivalents	51,715,876	33,805,506
	<u>55,260,014</u>	<u>36,628,357</u>

Financial Liabilities

Long-term Liabilities	344,674	-
Payables from Exchange Transactions	24,560,288	28,689,454
Unspent Conditional Grants and Receipts	1,426,821	1,612,292
Current Portion of Long-term Liabilities	148,507	68,594
	<u>26,480,290</u>	<u>30,370,340</u>

45. Related parties

Management and Councillors receive and pay for services on the same terms and conditions as other ratepayers and residents.

44.1 Related Party Loans

Since 1 July 2004 loans to Councillors and Senior management employees are not permitted.

44.2 Compensation of management personnel

The compensation of management personnel is set out in notes 27 and 28 to the financial statements.

44.3 Joe Gqabi Economic Development Agency (SoC) Ltd - (JoGEDA)

The Municipal Manager serves on the board of directors of JoGEDA. Transactions as disclosed in note 40 are therefor considered to be related party transactions.

44.4 Other related party transactions

The following purchases were made during the year Key Management Personnel and Officials have an interest:

Ganta Trading Enterprise (Spouse of Director A M Ntaba)	-	60,970
Nosisana Trading Enterprise (Niece of official Z Thuli)	44,750	12,575
Nobongoza Trading Enterprise (Spouse of official T Klaas)	-	18,880
Imbokodo Women Trading (Mother of official Tshaka)	-	3,900
Thozama and AB Trading (Mother of Ms V Nodikana - ELM official)	5,460	-
Biks Business Solutions (Spouse of Mrs. Bikitsha - ELM Official)	13,906	-
	<u>64,116</u>	<u>96,325</u>

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

46. Financial Risk Management

The activities of the Municipality expose it to a variety of financial risks, including market risk (comprising fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Municipality's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Municipality's financial performance.

Foreign Exchange Currency Risk

The Municipality does not engage in foreign currency transactions.

Price Risk

The Municipality is not exposed to price risk.

Interest Rate Risk

As the Municipality has significant interest-bearing liabilities, the Municipality's income and operating cash flows are substantially dependent on changes in market interest rates.

The Municipality analyses its potential exposure to interest rate changes on a continuous basis. Different scenarios are simulated which include refinancing, renewal of current positions, alternative financing and hedging. Based on these scenarios, the Municipality calculates the impact that a change in interest rates will have on the surplus/deficit for the year. These scenarios are only simulated for liabilities which constitute the majority of interest bearing liabilities.

The Municipality did not hedge against any interest rate risks during the current year.

The potential impact on the Municipality's surplus/deficit for the year due to changes in interest rates were as follow:

0.5% (2015 - 0.5%) Increase in interest rates	292,593	189,701
0.5% (2015 - 0.5%) Decrease in interest rates	(292,593)	(189,701)

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

46. Financial Risk Management (continued)

Credit Risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the Municipality to incur a financial loss. Credit risk consist mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies.

Receivables are disclosed net after provisions are made for impairment and bad debts. Receivables comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the Municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

All rates and services are payable within 30 days from invoice date. Refer to note 15 for all balances outstanding longer than 30 days. These balances represent all debtors at year end which defaulted on their credit terms. Also refer to note 15 for balances included in receivables that were re-negotiated for the period under review.

Balances past due not impaired:	2016	2015
	R	R
Electricity	435,205	285,276
Refuse	6,649	-
Other	1,469,537	1,559,287

No trade and other receivables are pledged as security for financial liabilities.

Due to the short term nature of trade and other receivables the carrying value disclosed in note 15 of the financial statements is an approximation of its fair value. Interest on overdue balances are included at prime lending rate where applicable.

The Municipality only deposits cash with major banks with high quality credit standing. No cash and cash equivalents were pledged as security for financial liabilities and no restrictions were placed on the use of any cash and cash equivalents for the period under review. Although the credit risk pertaining to cash and cash equivalents are considered to be low, the maximum exposure are disclosed below.

The banks utilised by the Municipality for current and non-current investments are all listed on the JSE (First National Bank and Standard Bank). The credit quality of these institutions are evaluated based on their required SENS releases as well as other media reports. Based on all public communications, the financial sustainability is evaluated to be of high quality and the credit risk pertaining to these institutions are considered to be low.

The risk pertaining to unpaid conditional grants and subsidies are considered to be very low. Amounts are receivable from national and provincial government and there are no expectation of counter party default.

Receivables are individually evaluated annually at Statement of Financial Position date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

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

Receivables from Exchange Transactions	3,544,138	2,776,851
Cash and Cash Equivalents	51,715,876	33,805,506
Unpaid conditional grants and subsidies	-	46,036

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

46. Financial Risk Management (continued)

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the treasury maintains flexibility in funding by maintaining availability under credit lines.

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

The table below analyses the Municipality's financial liabilities into relevant maturity groupings based on the remaining period at the financial year end to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2016	Less than 1 Year	Between 1 and 5 Years	Over 5 Years	Total
Long Term liabilities - Finance Lease Liability	235,954	412,919	-	648,873
Capital Repayments	148,507	344,674	-	493,181
Interest	87,447	68,245	-	155,692
Payables from Exchange Transactions	24,560,288	-	-	24,560,288
Unspent conditional government grants and receipts	1,426,821	-	-	1,426,821
	<u>26,223,063</u>	<u>412,919</u>	<u>-</u>	<u>26,635,982</u>
At 30 June 2015	Less than 1 Year	Between 1 and 5 Years	Over 5 Years	Total
Long Term liabilities - Finance Lease Liability	69,737	-	-	69,737
Capital Repayments	68,594	-	-	68,594
Interest	1,143	-	-	1,143
Payables from Exchange Transactions	28,860,290	-	-	28,860,290
Unspent conditional government grants and receipts	1,612,328	-	-	1,612,328
	<u>30,542,355</u>	<u>-</u>	<u>-</u>	<u>30,542,355</u>

47. Events after the reporting date

The Municipality has no events after reporting date during the financial year ended 2015/2016.

48. In-kind donations and assistance

No in-kind donations and assistance were received by the Municipality during the 2015/2016 financial year.

49. Statutory Receivables

In accordance with the principles of GRAP 108, Statutory Receivables of the Municipality are classified as follows:

Taxes	3,351,067	4,439,739
Receivables from Exchange Transactions	3,264,429	4,586,043
Rates	3,264,429	4,586,043
Traffic Fines	-	-
Total Statutory Receivables	<u>6,615,496</u>	<u>9,025,782</u>

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

50. Private Public Partnerships

Council entered into a Private Public Partnership (PPP) with Interwaste (Pty) Ltd ("The Private Company") on 30 May 2013.

In terms of the PPP the Private Company will be responsible for the maintenance and operation of the landfill sites in Ugie and Maclear, as well as Mt Fletcher from 2015/16. The Municipality is still responsible for the collection of refuse at the consumers' premises.

The duration of the contract is 10 years and future estimated payments (including VAT) are set out below:

Year	Amount payable
2015/16	- 4,793,136
2016/17	- 5,080,728
2017/18	- 5,385,566
2018/19	- 5,708,715
2019/20	- 6,051,221
2020/21	- 6,414,297
2021/22	- 6,679,164
2022/23	- 7,207,122

Refer to note 38 for expenditure incurred during the current and previous financial year.

In terms of the PPP, the Private Company is required to provide their own movable assets in order to fulfill their function. The PPP does make provision for the transfer of the movable assets to the Municipality at the end of the contract. The Private Company is not required to build any new assets, but only to maintain the current assets belonging to the Municipality.

The performance of the Private Company is reviewed on an annual basis. The contract may be terminated based on non-performance. There is also no renewal clause after the 10 years.

51. Explanatory Notes to the Statement of Comparison of Budget and Actual

Original Budget vs Final Budget

Statement of Financial Position

Total current assets were decreased to take into account the revised cash flow forecast.

Non-current assets were decreased to correct "other non-current assets" which was not a valid line item.

Current liabilities were decreased to be aligned to the 2014/15 audit outcome.

Non-current liabilities were increased due to anticipated borrowings to be taken up

Statement of Financial Performance - Revenue

Transfers recognised - operational was decreased to be aligned with anticipated grant receipts.

In 2012, the Municipality submitted a budget to Treasury which contained a deficit. The reason for the deficit is that the Municipality budgeted for expenditure which would have been funded from own roll-over funds of the prior year. Treasury instructed the Municipality that they were not allowed to budget for a deficit and subsequently had to increase own revenue to accommodate for the roll-over funds. This practice resulted in the variance of Other Income.

Transfers recognised - capital was decreased to be aligned with anticipated grant receipts.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

51. Explanatory Notes to the Statement of Comparison of Budget and Actual (continued)

Statement of Financial Performance - Expenditure

Employee related cost was increased to accommodate vacant positions that were filled.

Depreciation and amortisation was increased to take into account work in progress projects completed in the current year.

Other materials were increased due to additional scheduled maintenance relating to completed projects.

General expenses were decreased to align with the adjusted expected grant receipts.

Cash Flow Statement

The decrease in cash from operating activities is due to the decrease in anticipated cash flow.

The decrease in capital grants resulted in a decrease in the net cash flow from investing activities

Actual Amount vs Final Budget

Statement of Financial Position

Total current assets were less than budgeted due to less cash and cash equivalents as anticipated.

Total non-current assets were more than budgeted for due to the useful live of infrastructure which were adjusted. The adjusted useful lives resulted in less depreciation during the period. In addition, R8 million of capital projects were not implemented during the year.

Total non-current Liabilities was less than budgeted form due to anticipated borrowings not taken up.

Statement of Financial Performance - Revenue

Service Charges was less than budgeted for as NERSA guidelines was used which resulted in electricity being over budgeted.

Rental of facilities was less than budgeted for as minimum income was generated from the rental of plant equipment.

Interest received - Invested was more than budgeted due to the increase in cash reserves.

In 2012, the Municipality submitted a budget to Treasury which contained a deficit. The reason for the deficit is that the Municipality budgeted for expenditure which would have been funded from own roll-over funds of the prior year. Treasury instructed the Municipality that they were not allowed to budget for a deficit and subsequently had to increase own revenue to accommodate for the roll-over funds. This practice resulted in the variance of Other Income.

Statement of Financial Performance - Expenditure

Debt impairment was less than budgeted for due to the incorrect calculation made during 2014/15. Refer to prior year error restatement (note 42).

Depreciation and amortisation was less than budgeted for due to the review of useful live. In addition, R8 million of capital projects were not implemented during the year.

Bulk purchases were less than budgeted for due to NERSA guideline being used which resulted in bulk purchases being over budgeted.

Other material was calculated as 6% of the total expenditure instead of the normal of 8% of the carrying value of PPE. This resulted in the amount being over budgeted.

Other expenditure was less than budget as not all cash surplus from the previous year was utilised.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

51. Explanatory Notes to the Statement of Comparison of Budget and Actual (continued)

Cash Flow Statement

Cash from operating activities was more than budgeted for as not all roll-over expenditure fund expenditure incurred.

Cash from investing activities was less than budgeted for as not all capital projects were implemented.

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Appendices

APPENDIX A - Unaudited

SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2016

	Rate	Loan Number	Maturity Date	Balance at 30 June 2015	Received during the period	Redeemed during the Period	Balance at 30 June 2016
				R	R	R	R
FINANCE LEASE LIABILITIES							
Kyocera Taskalfa 8000i	7.97 %	ELM-4/031/2011-2012	31/08/2015	19,790	-	(19,790)	-
Kyocera Taskalfa 6550i	7.97 %	ELM-4/031/2011-2012	31/08/2015	25,519	-	(25,519)	-
Kyocera Taskalfa 4500i	7.97 %	ELM-4/031/2011-2012	31/08/2015	10,125	-	(10,125)	-
Kyocera Taskalfa 3500i	7.97 %	ELM-4/031/2011-2012	31/08/2015	5,920	-	(5,920)	-
Kyocera Ecosys FS-3140MFP+	7.97 %	ELM-4/031/2011-2012	31/08/2015	1,383	-	(1,383)	-
Kyocera Ecosys FS-6525MFP+	7.97 %	ELM-4/031/2011-2012	31/08/2015	2,929	-	(2,929)	-
Kyocera Ecosys FS-6525MFP+	7.97 %	ELM-4/031/2011-2012	31/08/2015	2,929	-	(2,929)	-
Fujitsu FI 6670	20.45 %	ELM-4/038/2015-2016	31/03/2019	-	156,950	(12,213)	144,737
Xerox Work centre 7225	20.45 %	ELM-4/038/2015-2016	31/03/2019	-	51,938	(4,042)	47,896
Xerox Work centre 7225	20.45 %	ELM-4/038/2015-2016	31/03/2019	-	51,938	(4,042)	47,896
Xerox Work centre 7225	20.45 %	ELM-4/038/2015-2016	31/03/2019	-	51,938	(4,042)	47,896
Xerox D110	20.45 %	ELM-4/038/2015-2016	31/03/2019	-	218,400	(16,995)	201,405
Xerox Workcentre 3210	20.45 %	ELM-4/038/2015-2016	31/03/2019	-	3,633	(283)	3,350
Total External Loans				68,595	534,797	(110,212)	493,180

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Appendices

APPENDIX B - Unaudited

DISCLOSURE OF GRANTS AND SUBSIDIES FOR THE YEAR ENDING 30 JUNE 2016

	Balance 1 July 2015	Correction of Error Restatement 2015	Restated Balance 1 July 2015	Contributions during the year	Operating Expenditure Transferred to Revenue	Capital Expenditure Transferred to Revenue	Balance 30 June 2016	Unspent 30 June 2016 (Creditor)	Unspent 30 June 2016 (Debtor)
	R	R	R	R	R	R	R	R	R
National Government Grants									
Equitable Share	-	-	-	132,110,000	(132,110,000)	-	-	-	-
Municipal Infrastructure Grant	242,490	-	242,490	32,992,000	(1,899,600)	(31,334,890)	-	-	-
INEP	50,450	-	50,450	20,000,000	(20,050,450)	-	-	-	-
Financial Management Grant	-	-	-	1,600,000	(1,600,000)	-	-	-	-
Municipal Systems Improvement Grant	-	-	-	930,000	(930,000)	-	-	-	-
EPWP	-	-	-	1,268,000	(1,268,000)	-	-	-	-
Total	292,940	-	292,940	188,900,000	(157,858,050)	(31,334,890)	-	-	-
Provincial Government Grants									
Hawkers Stalls	-	-	-	-	-	-	-	-	-
Elundini Housing	71,732	-	71,732	-	(71,732)	-	-	-	-
Housing Pilot	112,508	-	112,508	-	(112,508)	-	-	-	-
Library Fund	340,179	-	340,179	656,000	-	(569,358)	426,821	-	426,821
Business Survey	74,018	-	74,018	-	(74,018)	-	-	-	-
Tourism	562,756	-	562,756	-	(562,756)	-	-	-	-
LED Open	155,403	-	155,403	-	(155,403)	-	-	-	-
Madiba Corridor	-	-	-	-	-	-	-	-	-
Dedea Bottling Water	-	-	-	-	-	-	-	-	-
Public Works	-	-	-	-	-	-	-	-	-
Ethembeni Housing	(46,000)	-	(46,000)	46,000	-	-	-	-	-
Total	1,270,596	-	1,270,596	702,000	(976,417)	(569,358)	426,821	-	426,821

ELUNDINI LOCAL MUNICIPALITY

Financial Statements for the year ended 30 June 2016

Appendices

APPENDIX B - Unaudited (Continued)

DISCLOSURE OF GRANTS AND SUBSIDIES FOR THE YEAR ENDING 30 JUNE 2016

	Balance 1 July 2015	Correction of Error Restatement 2015	Restated Balance 1 July 2015	Contributions during the year	Operating Expenditure Transferred to Revenue	Capital Expenditure Transferred to Revenue	Balance 30 June 2016	Unspent 30 June 2016 (Creditor)	Unspent 30 June 2016 (Debtor)
	R	R	R	R	R	R	R	R	
District Municipality Grants									
Ward Functions	-	-	-	-	-	-	-	-	
Community Participation	-	-	-	-	-	-	-	-	
Total	-	-	-	-	-	-	-	-	
Other Grant Providers									
MSP	-	-	-	-	-	-	-	-	
Voter Station	-	-	-	1,000,000	-	-	1,000,000	-	
Town Register	(36)	-	(36)	36	-	-	-	-	
Katlehong Housing	2,791	-	2,791	-	(2,791)	-	-	-	
Leave Reserve	-	-	-	-	-	-	-	-	
ECDC	-	-	-	-	-	-	-	-	
Social Development Programme	-	-	-	-	-	-	-	-	
Total	2,755	-	2,755	1,000,036	(2,791)	-	1,000,000	-	
ALL SPHERES GOVERNMENT	1,566,291	-	1,566,291	190,602,036	(158,837,258)	(31,904,248)	1,426,821	-	
								1,426,821	