



**CAPRICORN DISTRICT MUNICIPALITY**

**AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017**

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## General Information

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### Mayoral committee

Executive Mayor

Councillors

Mpe MJ

Lekganyane NM (Speaker)

Masoga MC (Chief Whip)

Ntsoane MA (MMC : Sports, Arts & Culture)

Boloka, MP (MMC : Finance)

Kgare MB (MMC : Community Services)

Malebana, CWD (MMC : Development Planning & Environmental Management Services)

Mohale MM (MMC : Infrastructure Services)

Masubelele JA (MMC : Strategic Executive Management Services)

Selamolela MS (MMC : Local Economic Development)

Kgatta KE (MMC : Corporate Services)

Masoga PS (Chairperson: Committee of Chairpersons)

Motjopi S (Chairperson: Ethics, Rules & Integrity Committee)

Molepo FJ (Chairperson: Infrastructure Services Portfolio Committee)

Morotoba NL (Chairperson: Community Services Portfolio Committee)

Mothata ML (Chairperson: Strategic Executive Management Services Portfolio Committee)

Phoshoko MS (Chairperson: Finance Portfolio Committee)

Ledwaba PE (Chairperson: Corporate Services Portfolio Committee)

Masekwameng MR (Chairperson: Development Planning and Environmental Management Portfolio Committee)

Makgato, MP (Chairperson: Municipal Public Accounts Committee)

Baloyi RA (Member)

Botha AH (Member)

Chidi RDT (Member)

Dikgale SJ (Member)

Hlangwane KV (Member)

Hopane TE (Member)

Khan N (Member)

Kubheka DO (Member)

Legodi NJ (Member)

Lehong MV (Member)

Mabena KL (Member)

Mahlo NP (Member)

Makgahlela MB (Member)

Maleka ME (Member)

Malema RR (Member)

Mapakela MM (Member)

Mathabatha TP (Member)

Moabelo ML (Member)

Modiba MS (Member)

Modiba MT (Member)

Mogashoa ME (Member)

Molokomme MM (Member)

Mosena DD (Member)

Mothata LS (Member)

Motolla MO (Member)

Phoshoko NC (Member)

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## General Information

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|                                    |  |
|------------------------------------|--|
|                                    | Rababalela MS (Member)                 |
|                                    | Rakimana PT (Member)                   |
|                                    | Ramaloko SE (Member)                   |
|                                    | Ratau IG (Member)                      |
|                                    | Sekgobela M (Member)                   |
|                                    | Sesera MC (Member)                     |
|                                    | Setjie ND (Member)                     |
|                                    | Tsiri MM (Member)                      |
| <b>Accounting Officer</b>          | Mazibuko Nokuthula (Acting)            |
| <b>Chief Finance Officer (CFO)</b> | Nephawe T (Acting)                     |
| <b>Grading of local authority</b>  | Category B - Grade 5                   |
| <b>Auditors</b>                    | Auditor - General                      |
| <b>Bankers</b>                     | FNB (Primary bank account)             |
| <b>Registered office</b>           | 41 Biccard Street<br>Polokwane<br>0700 |
| <b>Business address</b>            | 41 Biccard Street<br>Polokwane<br>0700 |
| <b>Postal address</b>              | PO Box 4100<br>Polokwane<br>0700       |
| <b>Telephone number</b>            | 015 294 1000                           |
| <b>Fax number</b>                  | 015 291 4297                           |
| <b>E-mail address</b>              | info@cdm.org.za                        |

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

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### Abbreviations

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

## Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

### Accounting Officer's Responsibilities and Approval

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I am responsible for the preparation of these annual financial statements for the year ended 30 June 2017, as set out in terms of Section 126(1) of the Municipal Finance Management Act (Act 56 of 2003) and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 18 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act (Act 20 of 1998) and the Minister of Provincial and Local Government's determination in accordance with this Act.

  
\_\_\_\_\_  
Mazibuko Nokuthula (Acting)  
Municipal Manager

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Statement of Financial Position as at 30 June 2017

| Figures in Rand                            | Note(s) | 2017                 | 2016<br>Restated*    |
|--|---------|----------------------|----------------------|
| <b>Assets</b>                              |         |                      |                      |
| <b>Current Assets</b>                      |         |                      |                      |
| Inventories                                | 4       | 4,944,382            | 4,831,455            |
| Receivables from exchange transactions     | 3       | 10,235,194           | 3,422,026            |
| Receivables from non-exchange transactions | 42      | -                    | 66,348,786           |
| VAT receivable                             | 6       | 14,954,411           | 39,749,755           |
| Prepayments                                | 5       | 4,881,275            | 2,852,980            |
| Consumer debtors                           | 15      | 49,337,408           | 45,821,313           |
| Cash and cash equivalents                  | 2       | 246,627,348          | 205,551,025          |
|  |         | <b>330,980,018</b>   | <b>368,577,340</b>   |
| <b>Non-Current Assets</b>                  |         |                      |                      |
| Property, plant and equipment              | 7       | 2,084,470,222        | 2,116,678,552        |
| Intangible assets                          | 8       | 11,624,830           | 15,207,114           |
|  |         | <b>2,096,095,052</b> | <b>2,131,885,666</b> |
| <b>Total Assets</b>                        |         | <b>2,427,075,070</b> | <b>2,500,463,006</b> |
| <b>Liabilities</b>                         |         |                      |                      |
| <b>Current Liabilities</b>                 |         |                      |                      |
| Finance lease obligation                   | 13      | 64,982               | 1,370,528            |
| Operating lease liability                  | 14      | 288,159              | 253,767              |
| Payables from exchange transactions        | 10      | 126,725,588          | 219,122,490          |
| Unspent conditional grants and receipts    | 12      | 1,347,320            | 7,575,001            |
| Provisions                                 | 11      | 11,870,916           | 10,794,463           |
|  |         | <b>140,296,965</b>   | <b>239,116,249</b>   |
| <b>Non-Current Liabilities</b>             |         |                      |                      |
| Finance lease obligation                   | 13      | 14,115               | 79,097               |
| Provisions                                 | 11      | 29,040,301           | 29,418,817           |
|  |         | <b>29,054,416</b>    | <b>29,497,914</b>    |
| <b>Total Liabilities</b>                   |         | <b>169,351,381</b>   | <b>268,614,163</b>   |
| <b>Net Assets</b>                          |         | <b>2,257,723,689</b> | <b>2,231,848,843</b> |
| Accumulated surplus                        |         | 2,257,723,689        | 2,231,848,843        |

\* See Note 39

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Statement of Financial Performance

| Figures in Rand                                     | Note(s) | 2017                 | 2016<br>Restated*    |
|---|---------|----------------------|----------------------|
| <b>Revenue</b>                                      |         |                      |                      |
| <b>Revenue from exchange transactions</b>           |         |                      |                      |
| Service charges                                     | 43      | 61,396,430           | 58,327,844           |
| Commission received                                 | 50      | 20,765,444           | -                    |
| Other income  | 45      | 692,925              | 1,739,266            |
| Interest received - external investment             | 47      | 25,367,411           | 23,258,349           |
| Interest earned -outstanding receivables            | 47      | 7,838,453            | 1,839,079            |
| <b>Total revenue from exchange transactions</b>     |         | <b>116,060,663</b>   | <b>85,164,538</b>    |
| <b>Revenue from non-exchange transactions</b>       |         |                      |                      |
| Other income  |         | 3,997,788            | -                    |
| <b>Transfer revenue</b>                             |         |                      |                      |
| Government grants & subsidies                       | 44      | 839,491,898          | 873,052,878          |
| <b>Total revenue from non-exchange transactions</b> |         | <b>843,489,686</b>   | <b>873,052,878</b>   |
| <b>Total revenue</b>                                | 16      | <b>959,550,349</b>   | <b>958,217,416</b>   |
| <b>Expenditure</b>                                  |         |                      |                      |
| Employee related costs                              | 17      | (252,299,612)        | (246,030,228)        |
| Remuneration of councillors                         | 18      | (12,241,850)         | (11,729,225)         |
| Bad debts written off                               | 51      | (5,161,350)          | -                    |
| Depreciation and amortisation                       | 20      | (54,746,765)         | (57,168,199)         |
| Finance costs                                       | 22      | (991,725)            | (273,334)            |
| Commission paid                                     |         | (227,886)            | (27,531,701)         |
| Repairs and maintenance                             |         | (31,519,328)         | (41,294,446)         |
| Bulk purchases                                      | 23      | (47,965,290)         | (46,808,766)         |
| Transfers and Subsidies                             | 24      | (1,600,000)          | -                    |
| Transitional costs                                  |         | (9,293,752)          | -                    |
| Derecognition of assets                             |         | (30,968,200)         | (15,274,549)         |
| General Expenses                                    | 34      | (144,624,649)        | (179,289,426)        |
| Debt Impairment                                     | 46      | (49,295,804)         | (32,635,222)         |
| <b>Total expenditure</b>                            |         | <b>(640,936,211)</b> | <b>(658,035,096)</b> |
| <b>Operating surplus</b>                            |         | <b>318,614,138</b>   | <b>300,182,320</b>   |
| Loss on disposal of assets and liabilities          |         | (291,286,166)        | (455,841)            |
| Impairment loss                                     |         | (765,983)            | (2,447,232)          |
| Loss on actuarial adjustment                        | 9       | (687,139)            | (1,397,053)          |
|   |         | <b>(292,739,288)</b> | <b>(4,300,126)</b>   |
| <b>Surplus/(Deficit) for the period</b>             |         | <b>25,874,850</b>    | <b>295,882,194</b>   |

\* See Note 39

## Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

### Statement of Changes in Net Assets

| Figures in Rand                          | Accumulated surplus  | Total net assets     |
|--|----------------------|----------------------|
| Opening balance as previously reported   | 1,935,841,665        | 1,935,841,665        |
| Adjustments                              |                      |                      |
| Prior year adjustments                   | 124,984              | 124,984              |
| <b>Balance at 01 July 2015</b>           | <b>1,935,966,649</b> | <b>1,935,966,649</b> |
| Changes in net assets                    |                      |                      |
| Surplus for the year                     | 295,882,194          | 295,882,194          |
| Total changes                            | 295,882,194          | 295,882,194          |
| <b>Restated* Balance at 01 July 2016</b> | <b>2,231,848,838</b> | <b>2,231,848,838</b> |
| Changes in net assets                    |                      |                      |
| Deficit for the period                   | 25,874,851           | 25,874,851           |
| Total changes                            | 25,874,851           | 25,874,851           |
| <b>Balance at 30 June 2017</b>           | <b>2,257,723,689</b> | <b>2,257,723,689</b> |

\* See Note 39



# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Cash Flow Statement

| Figures in Rand   | Note(s)   | 2017                 | 2016<br>Restated*    |
|---|-----------|----------------------|----------------------|
| <b>Cash flows from operating activities</b>                 |           |                      |                      |
| <b>Receipts</b>   |           |                      |                      |
| Income received from service charges and other income       |           | 40,835,431           | 22,392,449           |
| Grants  |           | 899,613,000          | 801,785,000          |
| Interest received- external investments                     |           | 25,367,411           | 23,258,349           |
| Interest earned -outstanding receivables                    |           | 7,838,453            | 1,839,079            |
|   |           | <b>973,654,295</b>   | <b>849,274,877</b>   |
| <b>Payments</b>   |           |                      |                      |
| Employee costs  |           | (264,530,664)        | (255,646,895)        |
| Suppliers   |           | (323,708,554)        | (208,671,443)        |
| Finance costs   |           | (991,725)            | (273,334)            |
|   |           | <b>(589,230,943)</b> | <b>(464,591,672)</b> |
| <b>Net cash flows from operating activities</b>             | <b>27</b> | <b>384,423,352</b>   | <b>384,683,205</b>   |
| <b>Cash flows from investing activities</b>                 |           |                      |                      |
| Purchase of property, plant and equipment                   | 7         | (341,764,540)        | (415,124,501)        |
| Proceeds from sale of property, plant and equipment         | 7         | 293,498              | 261,424              |
| Purchase of other intangible assets                         | 8         | (505,483)            | (912,573)            |
| <b>Net cash flows from investing activities</b>             |           | <b>(341,976,525)</b> | <b>(415,775,650)</b> |
| <b>Cash flows from financing activities</b>                 |           |                      |                      |
| Finance lease payments                                      |           | (1,370,528)          | (1,684,941)          |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |           | <b>41,076,299</b>    | <b>(32,777,386)</b>  |
| Cash and cash equivalents at the beginning of the year      |           | 205,551,025          | 238,328,411          |
| <b>Cash and cash equivalents at the end of the year</b>     | <b>2</b>  | <b>246,627,324</b>   | <b>205,551,025</b>   |

\* See Note 39

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

|   | Approved budget      | Adjustments       | Final Budget         | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|----------------------|-------------------|----------------------|------------------------------------|--|-----------|
| Figures in Rand                                     |                      |                   |                      |                                    |  |           |
| <b>Statement of Financial Performance</b>           |                      |                   |                      |                                    |  |           |
| <b>Revenue</b>                                      |                      |                   |                      |                                    |  |           |
| <b>Revenue from exchange transactions</b>           |                      |                   |                      |                                    |  |           |
| Service charges                                     | 57,659,000           | -                 | 57,659,000           | 61,396,430                         | 3,737,430                                  |           |
| Commission received                                 | -                    | -                 | -                    | 20,765,444                         | 20,765,444                                 |           |
| Other income  | 945,000              | -                 | 945,000              | 692,925                            | (252,075)                                  |           |
| Interest received - external investment             | 22,694,000           | -                 | 22,694,000           | 25,367,411                         | 2,673,411                                  |           |
| Interest earned -outstanding receivables            | -                    | -                 | -                    | 7,838,453                          | 7,838,453                                  |           |
| <b>Total revenue from exchange transactions</b>     | <b>81,298,000</b>    | <b>-</b>          | <b>81,298,000</b>    | <b>116,060,663</b>                 | <b>34,762,663</b>                          |           |
| <b>Revenue from non-exchange transactions</b>       |                      |                   |                      |                                    |  |           |
| Other income  | -                    | -                 | -                    | 3,997,788                          | 3,997,788                                  |           |
| <b>Transfer revenue</b>                             |                      |                   |                      |                                    |  |           |
| Government grants & subsidies                       | 876,841,000          | 61,983,535        | 938,824,535          | 839,491,898                        | (99,332,637)                               |           |
| <b>Total revenue from non-exchange transactions</b> | <b>876,841,000</b>   | <b>61,983,535</b> | <b>938,824,535</b>   | <b>843,489,686</b>                 | <b>(95,334,849)</b>                        |           |
| <b>Total revenue</b>                                | <b>958,139,000</b>   | <b>61,983,535</b> | <b>1,020,122,535</b> | <b>959,550,349</b>                 | <b>(60,572,186)</b>                        |           |
| <b>Expenditure</b>                                  |                      |                   |                      |                                    |  |           |
| Personnel   | (278,377,024)        | 14,953,000        | (263,424,024)        | (252,299,612)                      | 11,124,412                                 |           |
| Remuneration of councillors                         | (13,921,000)         | -                 | (13,921,000)         | (12,241,850)                       | 1,679,150                                  |           |
| Bad debt written off                                | -                    | -                 | -                    | (5,161,350)                        | (5,161,350)                                |           |
| Depreciation and amortisation                       | (69,479,000)         | 18,600,000        | (50,879,000)         | (54,746,765)                       | (3,867,765)                                |           |
| Finance costs                                       | (475,000)            | -                 | (475,000)            | (991,725)                          | (516,725)                                  |           |
| Debt impairment                                     | (51,893,000)         | -                 | (51,893,000)         | (49,295,804)                       | 2,597,196                                  |           |
| Commission paid                                     | (17,298,000)         | -                 | (17,298,000)         | (227,886)                          | 17,070,114                                 |           |
| Repairs and maintenance                             | (43,271,976)         | 899,254           | (42,372,722)         | (31,519,328)                       | 10,853,394                                 |           |
| Bulk purchases                                      | (50,400,000)         | -                 | (50,400,000)         | (47,965,290)                       | 2,434,710                                  |           |
| Transfers and Subsidies                             | (1,850,000)          | -                 | (1,850,000)          | (1,600,000)                        | 250,000                                    |           |
| Transitional costs                                  | -                    | -                 | -                    | (9,293,752)                        | (9,293,752)                                |           |
| Derecognition of assets                             | -                    | -                 | -                    | (30,968,200)                       | (30,968,200)                               |           |
| General Expenses                                    | (213,697,000)        | (28,507,393)      | (242,204,393)        | (144,624,648)                      | 97,579,745                                 |           |
| <b>Total expenditure</b>                            | <b>(740,662,000)</b> | <b>5,944,861</b>  | <b>(734,717,139)</b> | <b>(640,936,210)</b>               | <b>93,780,929</b>                          |           |
| <b>Operating surplus</b>                            | <b>217,477,000</b>   | <b>67,928,396</b> | <b>285,405,396</b>   | <b>318,614,139</b>                 | <b>33,208,743</b>                          |           |
| Loss on disposal of assets and liabilities          | -                    | -                 | -                    | (291,286,166)                      | (291,286,166)                              |           |
| (Impairment loss)/Reversal of impairment loss       | -                    | -                 | -                    | (765,983)                          | (765,983)                                  |           |
| Actuarial gains/losses                              | -                    | -                 | -                    | (687,139)                          | (687,139)                                  |           |
|   | -                    | -                 | -                    | (292,739,288)                      | (292,739,288)                              |           |
| <b>Surplus for the year</b>                         | <b>217,477,000</b>   | <b>67,928,396</b> | <b>285,405,396</b>   | <b>25,874,851</b>                  | <b>(259,530,545)</b>                       |           |

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1. Presentation of Audited Financial Statements

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

These audited 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).

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

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted 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. The details of any changes in accounting policies are explained in the relevant policy.

#### 1.1 Presentation currency

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

#### 1.2 Going concern assumption

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

#### 1.3 Comparative figures

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

#### 1.4 Standards, amendments to standards and interpretations issued but not yet effective

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

| No.      | Title of Standard                           | Impact on GRAP Reporting Framework                           |
|----------|---|--|
| GRAP 20  | Related Party Disclosures                   | No material impact   |
| GRAP 32  | Service Concession Arrangements: Grantor    | No material impact   |
| GRAP 34  | Separate Financial Statements               | No impact  |
| GRAP 35  | Consolidated Financial Statements           | No impact  |
| GRAP 36  | Investment in Associates and Joint Ventures | No impact  |
| GRAP 37  | Joint Arrangement                           | No impact  |
| GRAP 38  | Disclosure of interest in other Entities    | No impact  |
| GRAP 110 | Living and Non-Living resources             | No material impact   |
| GRAP 108 | Statutory Receivables                       | No material impact as no merger is foreseeable in the future |
| GRAP 109 | Accounting by Principals and Agents         | No material impact   |

An effective date is yet to be determined for the other standards by the Minister.

#### 1.5 Property, plant and equipment

##### Depreciation

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

| Item | Average useful life |
|------|---------------------|
|------|---------------------|

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# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Accounting Policies

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

|                                      |       |
|--------------------------------------|-------|
| Land                                 | -     |
| Buildings                            | 33-35 |
| Plant and machinery                  | 5-13  |
| Furniture and fixtures               | 5-13  |
| Motor vehicles                       |       |
| • Specialist vehicles                | 5-14  |
| • Other vehicles                     | 5-14  |
| Office equipment                     | 3-13  |
| IT equipment                         | 3-13  |
| Computer software                    | 5-13  |
| Infrastructure                       |       |
| • Roads and Paving                   | 15-50 |
| Community                            |       |
| • Buildings                          | 10-55 |
| • Security                           | 5     |
| Other equipment                      |       |
| • Copiers                            | 3-6   |
| • Telephones                         | 3-6   |
| • Emergency equipment                | 5-8   |
| Communication equipment              | 3-6   |
| Leased assets                        |       |
| • Office equipment                   | 1-5   |
| Wastewater network                   |       |
| • Sewerage                           | 15-50 |
| Water network                        |       |
| • Water Maintenance and purification | 15-55 |
| • Water Reservoir                    | 30-55 |

#### Initial recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to 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 non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

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

#### Subsequent measurement - cost

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

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

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Accounting Policies

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

#### Derecognition

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

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

Non-cash generating assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recovered in accordance with GRAP 21.

An impairment loss is recognised if the recoverable service amount of an asset is less than its carrying amount. The depreciated replacement cost of an asset is essentially the current cost that will have to be incurred to replace the asset's gross service potential and is then depreciated to reflect the asset's current age or condition.

The impairment loss is recognised as an expense in the statement of financial performance immediately. The recoverable service amount of the asset is the higher of the assets fair value less costs of disposal and its value in use.

The fair value represents the amount obtainable from the sale in an arm's length transaction between knowledgeable, willing parties.

The impairment loss is allocated to reduce the carrying amount of the asset. The carrying amount of individual assets are not reduced below the higher of its value in use, zero or fair value less cost of disposal.

A previously recognised impairment loss related to assets is reversed if there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised in prior periods.

After the recognition of an impairment loss, any depreciation charge for the asset is adjusted for future periods to allocate the assets' revised carrying amount on a systematic basis over its remaining useful life.

#### Identification

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

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

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

### 1.7 Intangible assets

#### Initial Recognition

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

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

- the municipality intends to complete the intangible asset for use or sale
- it is technically feasible to complete the intangible asset
- the municipality has the resources to complete the project; and

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Audited Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.7 Intangible assets (continued)

- it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

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

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, 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 impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

#### Amortisation and impairment

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

|                   |      |
|-------------------|------|
| Computer software | 3-10 |
|-------------------|------|

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

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

#### Derecognition

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

#### Website costs

The municipality has a website designed for internal and external access. The municipality is at the operating stage which comprises maintaining and enhancing applications, infrastructure, graphical design and the content of the file. The municipality incurs internally generated costs on the operation of the website and the costs are therefore expensed.

### 1.8 Inventories

#### Initial recognition

Inventories assets in the form of materials or supplies to be consumed or distributed in the rendering of service. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition.

Where inventory is 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.

Consumable inventory is valued using the weighted average cost whilst water inventory is valued using the weighted average cost method.

#### Subsequent measurement

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# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.8 Inventories (continued)

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

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

### 1.9 Financial instruments

#### Classification

Financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality

Financial instruments comprise of financial assets and liabilities in accordance with GRAP 104.

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

A residual interest is any contract that entitles the holder to an interest in the assets of an municipality after deducting all of its liabilities (i.e. net assets).

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another municipality; or exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Financial instruments, depending on its category, are initially measured at fair value, cost or amortised costs in accordance with GRAP 104. Transaction costs are only included in financial instruments that are initially measured at amortised costs.

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.9 Financial instruments (continued)

#### Initial recognition and measurement

##### Financial instruments classified at fair value (fair value measurement considerations)

The best evidence of fair value is a quoted price in an active market.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, broker, dealer, etc., and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Short-term receivables and payables with no stated interest rate is be measured at the original invoice amount if the effect of discounting is immaterial.

Where there is no active market, the fair value is determined using a valuation technique such as;

- Additional textrecent arm's length market transaction;
- if available, reference to the current fair value of another instrument that is substantially the same;
- discounted cash flow analysis, discounting the future receipts (payments) of a financial instrument over the period of the contract, by using a market interest rate (adjusted for credit risk), to its present value.

##### Financial instruments classified at cost

If the fair value of a financial instrument cannot be reliably measured, it is measured at cost.

Financial assets at fair value are subsequently measured by using the fair value measurement considerations.

Any gains or losses due to changes in fair market value during the period are reported as gains or losses in the statement of financial performance, because such investments will usually be sold in the near future at their market value.

This effective interest rate method is used for these financial instruments. The interest rate used is necessary to discount the estimated stream of principal and interest cash flows through the expected life of the financial instrument to equal the amount recognised at initial recognition. The rate is then applied to the carrying amount at each reporting date to determine the interest expense or revenue for the period

##### Financial instruments classified at amortised cost

For financial instruments measured at amortised cost, the interest expense (for financial liabilities) or revenue (for financial assets) is calculated by using the effective interest rate method. The interest rate used is equal to the prevailing rate of return for financial instruments having substantially the same terms and characteristics of the municipality's financial instrument which include:

- the credit quality;
- the remaining term over which the contractual interest rate is fixed;
- the remaining period to repayment of the principal; and
- the currency (if applicable).



# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.9 Financial instruments (continued)

#### Subsequent measurement

##### Impairment and uncollectability of financial assets

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

##### Impairment and uncollectability of financial assets

If there is objective evidence that an impairment loss on a financial asset has occurred, the loss must be recognised in surplus or deficit. Objective evidence that a financial asset or group of assets is impaired can be as a result of the occurrence of one or more of the following events:

(a) Significant financial difficulty experienced by the borrower/debtor;

- Delays in payments (including interest payments) or failure to pay/defaults;
- For economic or legal reasons, allowing disadvantaged customers who are experiencing financial difficulties to pay as and when they can. The municipality would not otherwise have considered this concession. For example, allowing disadvantaged customers to pay their account when they can due to the fact the water it supplies to the customer is a basic human right;
- It is probable that the borrower/debtor will enter sequestration (bankruptcy) or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data, for example historical data, indicating that there is a decrease in the estimated future cash flows that will be received (which can be measured reliably), from a group of financial assets (financial assets with similar credit risk characteristics grouped together) since the initial recognition of those assets. The decrease may not yet be identified for the individual financial assets in the group. These can include:
  - the payment status of borrowers/debtors in the group has deteriorated (e.g. an increased number of delayed payments); or
  - national or local economic conditions that are in line with non-payments in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers/debtors, or adverse changes in market conditions that affect the borrowers/debtors in the group)

(b) An municipality assesses financial assets individually, when assets are individually significant, and individually or collectively for financial assets that are not individually significant. Where no objective evidence of impairment exists for an individually assessed asset (whether individually significant or not), an municipality includes the assets in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

The carrying amount of a financial asset is reduced directly through the use of an allowance account. The impairment loss is recognised in the statement of financial performance.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in the collective assessment of impairment.

As soon as information becomes available that specifically identifies losses on individually impaired assets in a group (that are collectively assessed for impairment), those assets are removed from the group and assessed individually for impairment.

For collective assessment of impairment, as indicated above, assets with similar credit risk characteristics are grouped together. The credit risk characteristics should be indicative of the debtors' ability to pay all amounts due according to the contractual terms.

#### Receivables from exchange transactions

Trade and other receivables are initially designated at fair value.

Short-term receivables with no stated interest rate is to be measured at the original invoice amount if the effect of discounting is immaterial.

#### Payables from exchange transactions

Financial liabilities consist of trade payables. They are categorised as financial liabilities held at fair value.

Short-term payables with no stated interest rate is to be measured at the original invoice amount if the effect of discounting is immaterial.

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.9 Financial instruments (continued)

#### Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). 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, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

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: other financial liabilities carried at amortised cost.

#### Gains and losses

Gains or losses can arise from both a financial asset and financial liability measured at fair value, at amortised cost or cost. Any gains and losses are recognised in the statement of financial performance.

Fair value - Changes in fair value will result in either a gain or loss.

Amortised costs and cost - gains and losses are recognised when derecognised, impaired or through the amortisation process.

#### Derecognition

##### Financial assets

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all the risks and rewards of the ownership of the asset; or  
The municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the that party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

If the municipality has not transferred substantially all of the risks and rewards of ownership of the financial asset, it should continue to recognise the asset.

##### Financial liabilities

The municipality derecognises a financial liability only when:

- Discharges the liability (or part thereof) by paying the creditor, normally with cash, other financial liabilities, goods or services;
- Waives the debt or it is assumed by another entity by way of a non-exchange transaction. These transactions are accounted for by considering the requirements in GRAP 104 and GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers).
- Is legally released from primary responsibility for the liability (o part of it) either by process of law (expires) or by the creditor (cancelled). If the debtor has given a guarantee, this condition may still be met; or

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.9 Financial instruments (continued)

#### Impairment of financial assets

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

Assets are carried at amortised cost.

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

#### 1.10 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 the 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 in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### 1.11 Irregular expenditure

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

#### 1.12 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### 1.13 Provisions and Contingents

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits 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. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits 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..

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.13 Provisions and Contingents (continued)

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;
- when the plan will be implemented; and

(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.

### 1.14 Leases

#### 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 subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

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

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

#### Operating leases - lessee

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

### 1.15 Revenue from exchange transactions

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

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

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

#### Measurement

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

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Accounting Policies

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

#### Sale of goods

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

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

#### Rendering of services

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

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

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

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

#### Interest Income

Revenue arising from the use by others of municipal assets yielding interest shall be recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably. Interest shall be recognised on a time basis that takes into account the effective yield of interest

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.

### 1.16 Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the municipality receives revenue from another municipality 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 obligation to repay the amount.

#### Grants, transfers and donations

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 raised 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

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.17 Events after reporting date

Recognised amounts in the financial statements are adjusted to reflect events arising after the balance sheet date that provide evidence of conditions that existed at the Balance Sheet date. Events after the Balance Sheet date that are indicative of conditions that arose after the Balance Sheet date are dealt with by way of a note to the Financial Statements.

### 1.18 Commitments

A commitment arises when a decision is made to incur a liability e.g. purchase order, delivery schedules or contract for construction of infrastructure assets. A commitment becomes a liability when the intention to agree to an outflow of resources outflow of resources becomes a present obligation.

The commitments are not recognised as a liability in the statement of financial position but are disclosed in the notes to the financial statements.

### 1.19 Employee benefits

#### Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the Municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan

The municipality provides retirement benefits to employees and councillors through contributions made to designated retirement or pension funds.

#### Other post retirement obligations

The municipality provides post employment medical care benefits to retired employees completion of a minimum service period. The expected cost, of these benefits is accrued over the life expectancy of the retired employees.

The actuarial valuation method used to value liabilities is the Projected Unit Credit Method prescribed by GRAP 25.

Any plan assets are valued at current market value as required by GRAP 25.

#### Long term service awards and accumulated leave days

##### Long term service

Employees qualify for additional leave for various period of uninterrupted service in accordance with SALGBC condition of service. The long term service award measured in accordance with GRAP 25 through an actuarial valuation.

##### Accumulated leave days

Accumulated leave benefit accrues to employees unto maximum of 48 leave days. The benefits are paid in the events of death, disability, retrenchment or/and retirement. Employees who have leave days in excess of the 48 days for periods, before the conditions of service came to effect, are measured in accordance with GRAP 25 through an actuarial valuation.

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.20 Change in accounting policy, accounting estimates and prior period errors

#### Change in accounting estimate

Change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities.

Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors. Any changes to the relevant financial items (associated with assets and liabilities) are made prospectively.

#### Change in accounting policy

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an municipality in preparing and presenting financial statements. Any changes to these policies arising from new or amended GRAP standards will be applied either retrospectively or prospectively if transitional provisions exists.

#### Prior period errors

Prior period errors are omissions from, and misstatements in, the municipality's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that;

(a) was available when financial statements for those periods were authorised for issue; and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

A prior period error is corrected by retrospective restatement, except to the extent that it is impracticable to determine the period-specific or cumulative effect of the error.

When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable (which may be the current period).

When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.

### 1.21 Related parties

Related party means parties are considered to be related if one party has the ability to control the other party, or exercise significant influence over the other party in making financial and operating decisions, or if the related party entity and another entity are subject to common control.

Related party transaction is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the reporting entity or the government of which it forms part.

Management is regarded as a related party and comprises of the Councillors, Executive Mayor, Mayoral Committee members, and Executive Managers.

Related party transactions are accounted for in accordance with IPSAS 20.

### 1.22 Budget information

The annual budget figures have been prepared in accordance with the GRAP standards, and are consistent with the accounting policies adopted by the Council for the preparation of these financial statements. The amounts are scheduled as a separate additional financial statement, called the statement of comparison of budget and actual amounts. Explanatory comments are provided in the notes to the annual financial statements.

The annual budget figures included in the financial statements are for the Municipality and these figures are those approved by the Council at the beginning and during the year.

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.23 Value added tax

VAT is payable on the accrual basis.



# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Notes to the Audited Financial Statements

| Figures in Rand                            | 2017               | 2016               |
|--|--------------------|--------------------|
| <b>2. Cash and cash equivalents</b>        |                    |                    |
| Cash and cash equivalents consist of:      |                    |                    |
| First National Bank (Primary Bank Account) | 2,947,946          | 7,024,869          |
| Investment Accounts                        | 243,656,478        | 198,503,156        |
| Other cash and cash equivalents            | 22,924             | 23,000             |
|  | <b>246,627,348</b> | <b>205,551,025</b> |

### The municipality had the following bank accounts

| Account number / description   | Bank statement balances |                    |                    | Cash book balances |                    |                    |
|--|-------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|  | 30 June 2017            | 30 June 2016       | 30 June 2015       | 30 June 2017       | 30 June 2016       | 30 June 2015       |
| First National Bank - Polokwane - Primary Bank Account - 62005556339 | 2,947,946               | 7,036,423          | 19,639,817         | 2,947,946          | 7,024,869          | 19,619,073         |
| First National Bank - Call Account - 62021167772                     | 2,128,731               | 302,190            | 299,612            | 2,128,731          | 302,190            | 299,612            |
| Nedbank - Investment Deposit Account - 000446/000447                 | 83,213,360              | 111,332,533        | 179,058,702        | 83,213,360         | 111,332,533        | 179,058,702        |
| First National Bank - Investment fixed deposit account - 74622615513 | 31,026,096              | -                  | -                  | 31,026,096         | -                  | -                  |
| Investec - Investment Call account                                   | 99,922,540              | 86,868,433         | 39,311,536         | 99,922,540         | 86,868,433         | 39,311,536         |
| Standardbank - Investments Call account -                            | 27,365,751              | -                  | -                  | 27,365,751         | -                  | -                  |
| <b>Total</b>   | <b>246,604,424</b>      | <b>205,539,579</b> | <b>238,309,667</b> | <b>246,604,424</b> | <b>205,528,025</b> | <b>238,288,923</b> |

### Summary of investments held

|                                       |                    |                    |
|---------------------------------------|--------------------|--------------------|
| First National Bank - Call Account    | 2,128,731          | 302,190            |
| Nedbank Deposit Account               | 83,213,360         | 111,332,533        |
| Investec Call Account                 | 99,922,540         | 86,868,433         |
| First National Bank - Fixed Deposit 1 | 31,026,096         | -                  |
| Standard Bank Call                    | 27,365,751         | -                  |
|                                       | <b>243,656,478</b> | <b>198,503,156</b> |

### 3. Receivables from exchange transactions

|                        |                   |                  |
|------------------------|-------------------|------------------|
| Trade debtors          | 16,875,071        | 9,476,054        |
| Provision for bad debt | (6,639,877)       | (6,054,028)      |
|                        | <b>10,235,194</b> | <b>3,422,026</b> |

### Reconciliation of provision for impairment of trade and other receivables

|                                      |                  |                  |
|--------------------------------------|------------------|------------------|
| Opening balance                      | 6,054,028        | 6,054,028        |
| Provision for impairment             | 585,849          | -                |
| Amounts written off as uncollectible | -                | -                |
|                                      | <b>6,639,877</b> | <b>6,054,028</b> |

### Net trade debtors

|  |                   |                  |
|--|-------------------|------------------|
| Local Municipalities - Operations and maintenance conditional grants | 1,827,267         | 2,728,489        |
| Vendor debit balances payroll  | 26,505            | 693,537          |
| other debtors  | 8,381,422         | -                |
|  | <b>10,235,194</b> | <b>3,422,026</b> |

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Notes to the Audited Financial Statements

| Figures in Rand       | 2017             | 2016             |
|-----------------------|------------------|------------------|
| <b>4. Inventories</b> |                  |                  |
| Consumable stores     | 437,059          | 345,932          |
| Maintenance materials | 4,284,254        | 4,295,464        |
| Water                 | 223,069          | 190,059          |
|                       | <b>4,944,382</b> | <b>4,831,455</b> |

No inventories were pledged as security for liabilities.

### 5. Prepayments

|                  |           |           |
|------------------|-----------|-----------|
| Prepaid expenses | 4,881,275 | 2,852,980 |
|------------------|-----------|-----------|

### 6. VAT receivable

|     |            |            |
|-----|------------|------------|
| VAT | 14,954,411 | 39,749,755 |
|-----|------------|------------|

VAT is receivable on the accrual basis.

### 7. Property, plant and equipment

|  | 2017                 |   |                      | 2016                 |   |                      |
|--|----------------------|---|----------------------|----------------------|---|----------------------|
|  | Cost / Valuation     | Accumulated depreciation and accumulated impairment | Carrying value       | Cost / Valuation     | Accumulated depreciation and accumulated impairment | Carrying value       |
| Land                                       | 11,861,500           | -   | 11,861,500           | 11,861,500           | -   | 11,861,500           |
| Buildings                                  | 69,741,589           | (20,786,551)  | 48,955,038           | 68,536,939           | (18,860,274)  | 49,676,665           |
| Furniture and fixtures                     | 11,318,442           | (6,952,399)   | 4,366,043            | 13,386,124           | (7,818,603)   | 5,567,521            |
| Motor vehicles                             | 49,174,612           | (24,371,845)  | 24,802,767           | 45,144,924           | (21,127,193)  | 24,017,731           |
| Office equipment                           | 12,383,611           | (6,475,490)   | 5,908,121            | 10,569,671           | (5,465,301)   | 5,104,370            |
| IT equipment                               | 12,194,188           | (5,134,368)   | 7,059,820            | 12,814,461           | (4,702,256)   | 8,112,205            |
| Infrastructure                             | 1,848,696,854        | (408,013,001)                                       | 1,440,683,853        | 1,880,732,282        | (458,439,068)                                       | 1,422,293,214        |
| Assets under construction - Infrastructure | 540,646,095          | -   | 540,646,095          | 588,723,733          | -   | 588,723,733          |
| Leased assets                              | 4,964,903            | (4,777,918)   | 186,985              | 4,964,903            | (3,643,290)   | 1,321,613            |
| <b>Total</b>                               | <b>2,560,981,794</b> | <b>(476,511,572)</b>                                | <b>2,084,470,222</b> | <b>2,636,734,537</b> | <b>(520,055,985)</b>                                | <b>2,116,678,552</b> |

An amount of R15 576 396 is still included within assets under construction and will be transferred to Polokwane municipality on completion.

Water infrastructure assets completed and unbundled that will still be transferred to Polokwane Municipality amounts to R65 298 550.

Movable assets identified for transfer to Polokwane Municipality amounts to R3 275 506. The assets will only be transferred as per need by Polokwane Municipality.

## Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

### Notes to the Audited Financial Statements

Figures in Rand

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

##### Reconciliation of property, plant and equipment - 2017

|  | Opening balance      | Additions          | Disposals            | Transfers            | Other changes, movements | Depreciation        | Impairment loss  | Total                |
|--|----------------------|--------------------|----------------------|----------------------|--------------------------|---------------------|------------------|----------------------|
| Land                                       | 11,861,500           | -                  | -                    | -                    | -                        | -                   | -                | 11,861,500           |
| Buildings                                  | 49,676,665           | 1,002,778          | (606,112)            | 886,201              | -                        | (2,004,494)         | -                | 48,955,038           |
| Furniture and fixtures                     | 5,567,521            | 1,161,488          | (1,267,402)          | -                    | 65,690                   | (1,161,254)         | -                | 4,366,043            |
| Motor vehicles                             | 24,017,731           | 4,972,250          | (716,469)            | -                    | -                        | (3,470,745)         | -                | 24,802,767           |
| Office equipment                           | 5,104,370            | 1,858,559          | -                    | -                    | (27,113)                 | (1,027,695)         | -                | 5,908,121            |
| IT equipment                               | 8,112,205            | 1,262,300          | (620,517)            | -                    | (38,576)                 | (1,655,592)         | -                | 7,059,820            |
| Infrastructure                             | 1,422,293,214        | 335,037,509        | (288,369,191)        | 12,692,891           | -                        | (40,204,587)        | (765,983)        | 1,440,683,853        |
| Assets under construction - Infrastructure | 588,723,733          | 248,471,770        | -                    | (296,549,408)        | -                        | -                   | -                | 540,646,095          |
| Leased assets                              | 1,321,613            | -                  | -                    | -                    | -                        | (1,134,628)         | -                | 186,985              |
|  | <b>2,116,678,552</b> | <b>593,766,654</b> | <b>(291,579,691)</b> | <b>(282,970,316)</b> | <b>1</b>                 | <b>(50,658,995)</b> | <b>(765,983)</b> | <b>2,084,470,222</b> |

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

|  | Opening balance      | Additions          | Disposals        | Transfers           | Depreciation        | Impairment loss    | Total                |
|--|----------------------|--------------------|------------------|---------------------|---------------------|--------------------|----------------------|
| Land                                       | 11,861,500           | -                  | -                | -                   | -                   | -                  | 11,861,500           |
| Buildings                                  | 48,634,332           | 2,073,088          | -                | 959,879             | (1,990,634)         | -                  | 49,676,665           |
| Furniture and fixtures                     | 6,725,580            | 328,634            | -                | -                   | (1,486,693)         | -                  | 5,567,521            |
| Motor vehicles                             | 26,213,910           | 1,652,280          | (695,960)        | -                   | (3,152,499)         | -                  | 24,017,731           |
| Office equipment                           | 5,682,931            | 726,838            | -                | -                   | (1,305,399)         | -                  | 5,104,370            |
| IT equipment                               | 7,235,052            | 2,357,760          | (21,305)         | -                   | (1,459,302)         | -                  | 8,112,205            |
| Infrastructure                             | 1,240,011,804        | 122,432,319        | -                | 104,529,771         | (42,233,448)        | (2,447,232)        | 1,422,293,214        |
| Assets under construction - Infrastructure | 424,083,555          | 316,077,536        | -                | (151,437,358)       | -                   | -                  | 588,723,733          |
| Leased assets                              | 2,814,935            | 149,211            | -                | -                   | (1,642,533)         | -                  | 1,321,613            |
|  | <b>1,773,263,599</b> | <b>445,797,666</b> | <b>(717,265)</b> | <b>(45,947,708)</b> | <b>(53,270,508)</b> | <b>(2,447,232)</b> | <b>2,116,678,552</b> |

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Notes to the Audited Financial Statements

Figures in Rand

2017

2016

### 8. Intangible assets

|                   | 2017                |   |                | 2016                |   |                |
|-------------------|---------------------|---|----------------|---------------------|---|----------------|
|                   | Cost /<br>Valuation | Accumulated<br>amortisation<br>and<br>accumulated<br>impairment | Carrying value | Cost /<br>Valuation | Accumulated<br>amortisation<br>and<br>accumulated<br>impairment | Carrying value |
| Computer software | 21,475,138          | (9,850,308)   | 11,624,830     | 20,969,654          | (5,762,540)   | 15,207,114     |

#### Reconciliation of intangible assets - 2017

|                   | Opening<br>balance | Additions | Amortisation | Total      |
|-------------------|--------------------|-----------|--------------|------------|
| Computer software | 15,207,114         | 505,484   | (4,087,768)  | 11,624,830 |

#### Reconciliation of intangible assets - 2016

|                   | Opening<br>balance | Additions | Amortisation | Total      |
|-------------------|--------------------|-----------|--------------|------------|
| Computer software | 18,192,233         | 912,573   | (3,897,692)  | 15,207,114 |

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Notes to the Audited Financial Statements

Figures in Rand 2017 2016

### 9. Employee benefit obligations

#### Defined benefit plan

#### Post retirement medical aid plan

The municipality provides certain post-retirement medical benefits to qualifying employees/ pensioners. All post-retirement medical benefits are unfunded.

In accordance with prevailing legislation, the defined benefits funds are actuarially valued at intervals of not more than two years. The Projected Unit Credit valuation method is used. The latest valuation was performed as at 30 June 2017 by ZAQ Consultants and Actuaries.

The municipality has no legal obligations to settle this liability with any immediate contributions or additional once-off contributions. The municipality intends to contribute to each defined benefit post-retirement medical scheme in accordance with the latest recommendations of the actuary to each scheme.

The accumulated defined benefit obligation in respect of the post-retirement medical contributions are provided, based on calculations of independent actuaries, using methods and assumptions consistent with GRAP 25 (Employee Benefits) as follows:

#### Movement in the employee health-care liability

|                                  |                  |                  |
|----------------------------------|------------------|------------------|
| Liability as at 1 July           | 3,881,000        | 3,410,000        |
| Benefits paid                    | (400,848)        | (321,587)        |
| Current service cost             | -                | -                |
| Interest                         | 372,000          | 301,000          |
| Actuarial losses (gains)         | 639,848          | 491,587          |
|                                  | <b>4,492,000</b> | <b>3,881,000</b> |
| Current portion of liability     | 440,000          | 372,000          |
| Non-current portion of liability | 4,052,000        | 3,509,000        |
|                                  | <b>4,492,000</b> | <b>3,881,000</b> |

#### Amounts recognised in the annual financial statements

|                           |                  |                |
|---------------------------|------------------|----------------|
| Current service cost      | -                | -              |
| Interest cost             | 372,000          | 301,000        |
| Past service cost         | -                | -              |
| Actuarial losses/ (gains) | 639,848          | 491,587        |
|                           | <b>1,011,848</b> | <b>792,587</b> |

#### Sensitivity analysis

As mentioned in the introduction of this report, the valuation is only an estimate of the cost of providing post-employment medical aid benefits. The actual cost to the Municipality will be dependent on actual future levels of assumed variables.

In order to illustrate the sensitivity of our results to changes in certain key variables, we have recalculated the liabilities using the following assumptions:

-20% increase/decrease in the assumed level of mortality;

-1% increase/decrease in the Medical aid inflation.

#### Mortality rate

Deviations from the assumed level of mortality experience of the current employees and the continuation members (pensioners) will have a large impact on the actual cost to the Municipality. If the actual rates of mortality turns out higher than the rates assumed in the valuation basis, the cost to the Municipality in the form of subsidies will reduce and vice versa.

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Notes to the Audited Financial Statements

Figures in Rand 2017 2016

### 9. Employee benefit obligations (continued)

We have illustrated the effect of higher and lower mortality rates by increasing and decreasing the mortality rates by 20%. The effect is as follows:

|                         | -20% Mortality<br>rate | Valuation<br>Assumption | +20% Mortality<br>rate |
|-------------------------|------------------------|-------------------------|------------------------|
| Total Accrued Liability | 4,923,000              | 4,244,000               | 4,156,000              |
| Interest Cost           | 484,000                | 440,000                 | 405,000                |
| Service Cost            | -                      | -                       | -                      |
|                         | <b>5,407,000</b>       | <b>4,684,000</b>        | <b>4,561,000</b>       |

#### Medical aid inflation

The cost of the subsidy after retirement is dependent on the increase in the contributions to the medical aid scheme before and after retirement. The rate at which these contributions increase will thus have a direct effect on the liability of future retirees.

We have tested the effect of a 1% p.a. change in the medical aid inflation assumption. The effect is as follows:

|                         | 1% Medical aid<br>inflation | Valuation<br>Assumption | +1% Medical<br>aid inflation |
|-------------------------|-----------------------------|-------------------------|------------------------------|
| Total Accrued Liability | 4,104,000                   | 4,492,000               | 4,946,000                    |
| Interest Cost           | 400,000                     | 440,000                 | 486,000                      |
| Service Cost            | -                           | -                       | -                            |
|                         | <b>4,504,000</b>            | <b>4,932,000</b>        | <b>5,432,000</b>             |

#### Actuarial Loss/(Gain)

The combined Accrued Liability in respect of Post-employment medical aid liability is built-up as follows:

|  | Current<br>Valuation date<br>30 June 2016 | 1 Year<br>Following the<br>Valuation Date | 2 Years<br>Following the<br>Valuation Date | 3 Years<br>Following the<br>Valuation Date |
|--|---|---|--|--|
| PV of the obligation as at the previous valuation date | 3,881,000                                 | 4,492,000                                 | 4,566,000                                  | 4,638,000                                  |
| Current Service Cost                                   | -   | -   | -  | -  |
| Interest Cost  | 372,000                                   | 440,000                                   | 446,000                                    | 453,000                                    |
| Benefits Paid  | (400,848)                                 | (336,000)                                 | (374,000)                                  | (381,000)                                  |
| Actuarial Loss / (Gain)                                | 639,848                                   | -   | -  | -  |
|  | <b>4,492,000</b>                          | <b>4,596,000</b>                          | <b>4,638,000</b>                           | <b>4,710,000</b>                           |

#### Membership Data

According to the information provided, the number of members entitled to receive postemployment medical aid subsidies from the Municipality were:

| Category                          | 30-06-2017<br>Valuation | 30-06-2016<br>Valuation |
|-----------------------------------|-------------------------|-------------------------|
| Current (In Service) Members      | -                       | -                       |
| Continuation Members (Pensioners) | 7                       | 6                       |
|                                   | <b>7</b>                | <b>6</b>                |

#### Accrued Contractual Liability

The figures below reflect the total value of the accrued contractual liability of the Municipality in respect of post-employment medical aid benefits offered to employees:

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Notes to the Audited Financial Statements

Figures in Rand 2017 2016

### 9. Employee benefit obligations (continued)

| Category                          | 30-06-2017<br>Valuation | 30-06-2016<br>Valuation |
|-----------------------------------|-------------------------|-------------------------|
| Current (In Service) Members      | -                       | -                       |
| Continuation Members (Pensioners) | 4,492,000               | 3,881,000               |
|                                   | <b>4,492,000</b>        | <b>3,881,000</b>        |

#### Interest and Service Costs

| Category             | 30-06-2017<br>Valuation To<br>be used in the<br>30 June 2018<br>Actuarial<br>Loss/(Gain)<br>calculation | 30-06-2016<br>Valuation To<br>be used in the<br>30 June 2017<br>Actuarial<br>Loss/(Gain)<br>calculation |
|----------------------|---|---|
| Interest Cost        | 440,000   | 372,000   |
| Current Service Cost | -   | -   |
|                      | <b>440,000</b>  | <b>372,000</b>  |

#### Valuation Method

The Projected Unit Credit funding method has been used to determine the past-service liabilities at the valuation date and the projected annual expense in the year following the valuation date.

#### Post-employment Medical Aid Liabilities

The expected value of each employee and their spouse's future medical aid subsidies is projected by allowing for future medical inflation. The calculated values are then discounted at the assumed discount interest rate to the present date of valuation (calculation). We also allowed for mortality, retirements and withdrawals from service as set out below. The accrued liability is determined on the basis that each employee's medical aid benefit accrues uniformly over the working life of an employee up until retirement. Further it is assumed that the current policy for awarding medical aid subsidies remains unchanged in the future. We assumed that 100% of all active members on medical aid will remain on medical aid once they retire. We also assumed that all active members will remain on the same medical aid option at retirement.

#### Valuation of Assets

As at the valuation date, the medical aid liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability. We therefore did not consider any assets as part of our valuation.

#### Valuation Assumptions

In estimating the liability for post-employment medical aid benefits a number of assumptions are required. GRAP 25 places the responsibility on management to set these assumptions, as guided by the principles set out in GRAP 25 and in discussion with the actuary.

APN 301 states that the assumptions should be realistic and mutually compatible. The difference between the assumptions drives the valuation and it is very important to monitor how this difference changes from one valuation to the next. The most relevant actuarial assumptions used in this valuation are discussed below.

#### Financial Variables

The two most important financial variables used in our valuation are the discount- and medical aid inflation rates. We have assumed the following values for these variables:

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Notes to the Audited Financial Statements

Figures in Rand 2017 2016

### 9. Employee benefit obligations (continued)

| Financial Variable                 | Assumed Value 30-06-2017 (Current Valuation) | Assumed Value 30-06-2016 (Preceding Valuation) |
|------------------------------------|--|--|
| Discount Rate                      | Yield Curve                                  | Yield Curve                                    |
| CPI (Consumer Price Inflation)     | Difference between nominal and yield curves  | Difference between nominal and yield curves    |
| Medical Aid Contribution Inflation | CPI+1%                                       | CPI+1%   |
| Net Effective Discount Rate        | Yield curve based**                          | Yield curve based**                            |

#### Discount Rate

GRAP 25 defines the determination of the Discount rate assumption to be used as follows:

"The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve."

\*Statement of Financial Position (herein referred to as the "balance sheet").

We used the nominal and real zero curves as at **30 June 2017** as supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period

#### Medical Aid Inflation

The Medical Aid Contribution Inflation rate was set with reference to the past relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Medical Aid Contribution Inflation for each relevant time period.

South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would outstrip general inflation by 1% per annum over the foreseeable future.

#### Average Retirement Age

The average retirement age for all active employees was assumed to be **58** years. This assumption implicitly allows for ill-health and early retirements.

#### Normal Retirement Age

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

#### Mortality Rates

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

#### Spouses and Dependents



# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Notes to the Audited Financial Statements

Figures in Rand 2017 2016

### 9. Employee benefit obligations (continued)

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

#### Long service award

The municipality provides long-service awards to its permanent employees

The benefit of long-service awards is provided in the form of annual leave and a gift to a certain monetary value.

In accordance with prevailing legislation, the defined benefits funds are actuarially valued at intervals of not more than two years. The Projected Unit Credit valuation method is used. The latest valuation was performed as at 30 June 2017 by ZAQ Consultants and Actuaries.

The municipality has no legal obligations to settle this liability with any immediate contributions or additional once-off contributions.

The accumulated defined benefit obligation in respect of the long-service awards are provided, based on calculations of independent actuaries, using methods and assumptions consistent with GRAP 25 (Employee Benefits) as follows:

| <b>Movement in the long-service award liability</b>             |                   |                   |
|---|-------------------|-------------------|
| Liability as at 1 July  | 10,265,000        | 9,769,000         |
| Benefits paid   | (1,176,291)       | (2,254,466)       |
| Current service cost  | 1,064,000         | 978,000           |
| Interest  | 979,000           | 867,000           |
| Actuarial losses (gains)  | 47,291            | 905,466           |
|   | <b>11,179,000</b> | <b>10,265,000</b> |
| <hr/>   |                   |                   |
| Current portion of liability                                    | 2,246,000         | 2,043,000         |
| Non-current portion of liability                                | 8,933,000         | 8,222,000         |
|   | <b>11,179,000</b> | <b>10,265,000</b> |
| <hr/>   |                   |                   |
| <b>Expense recognised in Statement of Financial Performance</b> |                   |                   |
| Current service cost  | 1,064,000         | 978,000           |
| Interest cost   | 979,000           | 867,000           |
| Past service cost   | -                 | -                 |
| Actuarial losses/ (gains)                                       | 47,291            | 523,000           |
|   | <b>2,090,291</b>  | <b>2,368,000</b>  |

| <b>Changes in the value of obligation</b> | Current                        | 1 Year                          | 2 Years                         | 3 Years                         |
|---|--------------------------------|---------------------------------|---------------------------------|---------------------------------|
|   | Valuation date<br>30 June 2017 | following the<br>Valuation Date | following the<br>Valuation Date | following the<br>Valuation Date |
| Liability recognised in the balance sheet | 10,265,000                     | 11,179,000                      | 11,600,000                      | 12,436,452                      |
| Current service cost                      | 1,064,000                      | 1,104,000                       | 1,163,079                       | 1,229,994                       |
| Interest cost                             | 979,000                        | 1,142,000                       | 1,165,373                       | 1,205,974                       |
| Benefits paid                             | (1,176,291)                    | (1,825,000)                     | (1,492,000)                     | (2,435,000)                     |
| Actuarial Loss/ (Gain)                    | 47,291                         | -                               | -                               | -                               |
|   | <b>11,179,000</b>              | <b>11,600,000</b>               | <b>12,436,452</b>               | <b>12,437,420</b>               |

#### Membership data

According to the information provided, the number of members entitled to receive long service leave awards from the municipality were:

# Capricorn District Municipality

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### 9. Employee benefit obligations (continued)

| Gender | Number of active employees | Salary weighted average age (Years) | Weighted average past service (Years) |
|--------|----------------------------|-------------------------------------|---------------------------------------|
| Male   | 336                        | 46,13                               | 14,76                                 |
| Female | 224                        | 41,47                               | 11,03                                 |

#### Long Service Awards Liabilities

| Category          | 30-06-2017 Valuation | 30-06-2016 Valuation |
|-------------------|----------------------|----------------------|
| Accrued liability | 11,179,000           | 10,265,000           |

#### Interest and service costs

| Category             | 30-06-2017 Valuation. To be used in the 30 June 2017 Actuarial Loss/(Gain) calculation | 30-06-2016 Valuation. To be used in the 30 June 2016 Actuarial Loss/(Gain) calculation | Column heading | Column heading | Column heading |
|----------------------|--|--|----------------|----------------|----------------|
| Interest cost        | 1,142,000  | 979,000  | -              | -              | -              |
| Current service cost | 1,104,000  | 1,064,000  | -              | -              | -              |
|                      | <b>2,246,000</b>   | <b>2,043,000</b>   | -              | -              | -              |

#### Valuation Method

The Projected Unit Credit funding method has been used to determine the past-service liabilities at the valuation date and the projected annual expense in the year following the valuation date

#### Long Service Awards Liabilities

Long service benefits are awarded in the form of a number of leave days awarded once an employee has completed a certain number of years in service. We have converted the awarded leave days to a percentage of annual salary by assuming there are 250 working days per year. The expected value of each employee's long service award is projected to the next interval by allowing for future salary growth. The table below contains a summary of the benefit policy:

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### 9. Employee benefit obligations (continued)

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

---

The calculated award values are then discounted at the assumed discount interest rate to the date of calculation. We also allowed for mortality, retirements and withdrawals from service as set out in the next section of this report.

The accrued liability is determined on the basis that each employee's long service benefit accrues uniformly over the working life of an employee up to the end of the interval at which the benefit becomes payable. Further it is assumed that the current policy for awarding long service awards remains unchanged in the future.

#### Valuation of Assets

As at the valuation date, the long service leave award liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability. We therefore did not value any assets as part of our valuation.

In estimating the liability for long service leave benefits a number of assumptions are required. GRAP 25 places the responsibility on management to set these assumptions, as guided by the principles set out in GRAP 25 and in discussion with the actuary.

The assumptions should be realistic and mutually compatible. The difference between the assumptions drives the valuation and it is very important to monitor how this difference changes from one valuation to the next. The most relevant actuarial assumptions used in this valuation are discussed below.

#### Financial Variables

The two most important financial variables used in our valuation are the discount rate and salary inflation. We have assumed the following values for these variables:

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### 9. Employee benefit obligations (continued)

| Financial Variable             | Assumed Value 30-06-2017 (Current Valuation)    | Assumed Value at 30-06-2016 (Preceding Valuation) |
|--------------------------------|---|---|
| Discount Rate                  | Yield Curve                                     | Yield Curve                                       |
| CPI (Consumer Price Inflation) | Difference between nominal and real yield curve | Difference between nominal and real yield curve   |
| Normal Salary Increase Rate    | Equal to CPI+1%                                 | Equal to CPI+1%                                   |
| Net Effective Discount Rate    | Yield Curve Based**                             | Yield Curve Based**                               |

#### Discount Rate

GRAP 25 defines the determination of the Discount rate assumption to be used as follows:

"The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve."

\*Statement of Financial Position (herein referred to as the "balance sheet").

We use the nominal and real zero curves as at 30 June 2017 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

\*\* The Net Effective Discount Rate is different for each relevant time period of the yield curves' various durations and therefore the Net Effective Discount Rate is based on the relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Salary Inflation for each relevant time period.

#### Normal Salary Inflation Rate

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2017 of 7.36%. The next salary increase was assumed to take place on 01 July 2018.

In addition to the normal salary inflation rate, we assumed the following promotional salary increases:

#### Promotional Salary Increase Rates

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### 9. Employee benefit obligations (continued)

| Age band    | Promotional Increase |
|-------------|----------------------|
| 20-24       | 5 %                  |
| 25-29       | 4 %                  |
| 30-34       | 3 %                  |
| 35-39       | 2 %                  |
| 40-44       | 1 %                  |
| 45 and over | - %                  |
|             | <b>15 %</b>          |

#### Average Retirement Age

The average retirement age for all active employees was assumed to be **58** years. This assumption implicitly allows for ill-health and early retirements.

#### Normal Retirement Age

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

#### Mortality Rates

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

#### Withdrawal Decrements

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

| Age Band | Withdrawal Rate Males | Withdrawal Rate Females |
|----------|-----------------------|-------------------------|
| 20 - 24  | 16 %                  | 24 %                    |
| 25 - 29  | 12 %                  | 18 %                    |
| 30 - 34  | 10 %                  | 15 %                    |
| 35 - 39  | 8 %                   | 10 %                    |
| 40 - 44  | 6 %                   | 6 %                     |
| 45 - 49  | 4 %                   | 4 %                     |
| 50 - 54  | 2 %                   | 2 %                     |
| 55 - 59  | 1 %                   | 1 %                     |
| 60 +     | - %                   | - %                     |
|          | <b>59 %</b>           | <b>80 %</b>             |

#### Membership Data

The information below is based on the membership data received from the Municipality.

#### Eligible male employees

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### 9. Employee benefit obligations (continued)

| Age band | Number of employees | Average annual salary | Salary weighted average past service (Years) | Average accrued liability |
|----------|---------------------|-----------------------|--|---------------------------|
| 20 - 29  | 10                  | 226,161               | 2,75   | 5,109                     |
| 30 - 39  | 76                  | 307,056               | 5,89   | 21,474                    |
| 40 - 49  | 86                  | 306,575               | 12,27  | 32,163                    |
| 50 - 59  | 130                 | 215,050               | 22,98  | 12,419                    |
| 60 +     | 34                  | 172,453               | 26,66  | -                         |
|          | <b>336</b>          | <b>1,227,295</b>      |  | <b>71,165</b>             |

#### Eligible female employees

| Age band | Number of employees | Average annual salary | Salary weighted average past service (Years) | Average accrued liability |
|----------|---------------------|-----------------------|--|---------------------------|
| 20 - 29  | 7                   | 225,760               | 3,39   | 4,293                     |
| 30 - 39  | 85                  | 306,640               | 6,43   | 21,506                    |
| 40 - 49  | 75                  | 306,148               | 11,10  | 34,207                    |
| 50 - 59  | 44                  | 225,698               | 22,57  | 14,747                    |
| 60 +     | 11                  | 147,603               | 22,57  | -                         |
|          | <b>222</b>          | <b>1,211,849</b>      |  | <b>74,753</b>             |

#### Total eligible employees

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### 9. Employee benefit obligations (continued)

| Age band | Number of employees | Average annual salary | Salary weighted average past service (Years) | Average accrued liability |
|----------|---------------------|-----------------------|--|---------------------------|
| 20 - 29  | 17                  | 225,995               | 3,01   | 4,773                     |
| 30 - 39  | 163                 | 306,836               | 6,18   | 21,491                    |
| 40 - 49  | 161                 | 306,376               | 11,72  | 33,115                    |
| 50 - 59  | 174                 | 217,743               | 22,88  | 13,008                    |
| 60 +     | 45                  | 166,378               | 25,77  | -                         |
|          | <b>560</b>          | <b>1,223,328</b>      |  | <b>72,387</b>             |

#### Interest Cost

The Interest Cost represents the accrual of interest on the Accrued Defined Benefit Obligation, allowing for benefit payments, over the corresponding year. This arises because the long service benefits are one year closer to payment. This item should be accounted for in the Statement of profit or loss and other comprehensive income (herein after referred to as the "income statement") according to GRAP 25.

#### Current Service Cost

The Current Service Cost reflects the additional liability that is expected to accrue in respect of in service members' service over the corresponding year. This item should be accounted for in the income statement according to GRAP 25.

#### Sensitivity Analysis

As mentioned in the introduction of this report, the valuation is only an estimate of the cost of providing Long service leave award benefits. The actual cost to the Municipality will be dependent on actual future levels of assumed variables and the demographic profile of the membership.

In order to illustrate the sensitivity of our results to changes in certain key variables, we have recalculated the liabilities using the following assumptions:

- 20% increase/decrease in the assumed level of withdrawal rates;
- 1% increase/decrease in the Normal Salary cost inflation

#### Withdrawal rate

Deviations from the assumed level of withdrawal experience of the eligible employees will have a large impact on the actual cost to the Municipality. If the actual rates of withdrawal turns out to be higher than the rates assumed in the valuation basis, then the cost to the Municipality in the form of benefits will reduce and vice versa

We have illustrated the effect of higher and lower withdrawal rates by increasing and decreasing the withdrawal rates by 20%. The effect is as follows:

|                         | -20% Withdrawal rate | Valuation Assumption | +20% Withdrawal rate |
|-------------------------|----------------------|----------------------|----------------------|
| Total Accrued Liability | 11,849,000           | 11,179,000           | 10,580,000           |
| Current Service Cost    | 1,204,000            | 1,018,000            | 1,192,000            |
| Interest Cost           | 1,215,000            | 1,076,000            | 1,218,000            |
|                         | <b>14,268,000</b>    | <b>13,273,000</b>    | <b>12,990,000</b>    |

#### Normal salary inflation

The cost of the long service awards is dependent on the increase in the annual salaries paid to employees. The rate at which salaries increase will thus have a direct effect on the liability of future employees.

We have tested the effect of a 1% p.a. change in the Normal Salary inflation assumption. The effect is as follows:

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### 9. Employee benefit obligations (continued)

|                         | -1% Normal<br>salary inflation | Valuation<br>Assumption | +1% Normal<br>salary inflation |
|-------------------------|--------------------------------|-------------------------|--------------------------------|
| Total Accrued Liability | 10,533,000                     | 11,179,000              | 11,885,000                     |
| Current Service Cost    | 1,025,000                      | 1,104,000               | 1,192,000                      |
| Interest Cost           | 1,072,000                      | 1,142,000               | 1,218,000                      |
|                         | <b>12,630,000</b>              | <b>13,425,000</b>       | <b>14,295,000</b>              |

#### Long-term leave

The municipality, in recognition of services rendered, grants employees 24 working days leave per year.

This leave is cumulative up to a limit of 48 working days.

There is no discounting applied to the calculation of the provision and the amount is based on the estimated 1 July salaries after allowing for an estimated salary increase. The provision is split between that which is expected to be taken within 12 months of the valuation date and that which will be taken after the 12 months.

#### Movement in the leave provision

|                                      |                   |                   |
|--------------------------------------|-------------------|-------------------|
| Liability as at 1 July               | 18,916,744        | 18,244,713        |
| Annual leave forfeited               | (2,787,968)       | -                 |
| Net accrued leave days over the year | 4,098,360         | 672,031           |
|                                      | <b>20,227,136</b> | <b>18,916,744</b> |
| Current portion of liability         | 4,171,833         | 1,228,926         |
| Non-current portion of liability     | 16,055,302        | 17,687,817        |
|                                      | <b>20,227,135</b> | <b>18,916,743</b> |

#### Leave Days Provisional Liabilities

There is no standard actuarial formula that prescribes the way in which the accrued leave days balance should be broken down between short term and long-term components. We recommend that the municipality follow an approach that is consistent with its past experience.

No discounting is applied to the calculation of the annual leave provisions. The leave provision is based on the estimated 1 July 2017 salaries after allowing for an estimated salary increase of 6%. The provision is split between that which is expected to be taken within 12 months of the valuation date (short-term portion) and that which will be taken after 30 June 2018 (long-term portion)

In order to calculate the short term and long-term components of the accrued leave days provisional liability we assumed that;

1. Employees reaching the expected retirement age of 63 over the coming year would cash-in their accrued leave balances in full;
2. Employees resigning from service would cash-in their accrued leave days balances in full;
3. Other employees remaining in service would take their full 24 leave days in the coming year.

We assume that all employees will take up leave to avoid forfeiture of leave days. Employees that resign or retire over the coming year will have their leave balance cashed on resignation/ retirement. We assumed 250 working days per year for the purposes of calculating the value of the accrued benefit. The current portion of the accrued leave also takes into account withdrawals from service over the next 12 months according to the table below.

#### Withdrawal decrements



# Capricorn District Municipality

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### 9. Employee benefit obligations (continued)

| Age band | Withdrawal  |              |
|----------|-------------|--------------|
|          | Rate Males  | Rate Females |
| 20-24    | 16 %        | 24 %         |
| 25-29    | 12 %        | 18 %         |
| 30-34    | 10 %        | 15 %         |
| 35-39    | 8 %         | 10 %         |
| 40-44    | 6 %         | 6 %          |
| 45-49    | 4 %         | 4 %          |
| 50-54    | 2 %         | 2 %          |
| 55-59    | 1 %         | 1 %          |
| 60+      | - %         | - %          |
|          | <b>59 %</b> | <b>80 %</b>  |

#### Membership data

The information below is based on the membership data received from the municipality.

According to the information provided, the number of members entitled to receive leave days from the municipality were:

| Gender | Number of active employees | Salary weighted average age (Years) | Average Annual Salary |
|--------|----------------------------|-------------------------------------|-----------------------|
| Male   | 342                        | 46,44                               | 237,243               |
| Female | 223                        | 41,49                               | 272,896               |
|        | <b>565</b>                 |                                     | <b>510,139</b>        |

### 10. Payables from exchange transactions

|                     |                    |                    |
|---------------------|--------------------|--------------------|
| Trade Creditors     | 53,358,029         | 144,520,079        |
| Retention Creditors | 68,790,514         | 69,575,060         |
| Other Creditors     | 4,577,045          | 5,027,351          |
|                     | <b>126,725,588</b> | <b>219,122,490</b> |

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

# Capricorn District Municipality

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### 11. Provisions

#### Reconciliation of provisions - 2017

|                                  | Opening<br>Balance | Additions         | Utilised during<br>the year | Total             |
|----------------------------------|--------------------|-------------------|-----------------------------|-------------------|
| Provision for bonuses            | 7,150,537          | 5,000,000         | (7,137,454)                 | 5,013,083         |
| Provision for leave              | 18,916,743         | 1,997,925         | (687,534)                   | 20,227,134        |
| Post-employment medical benefits | 3,881,000          | 1,011,848         | (400,848)                   | 4,492,000         |
| Long-service award               | 10,265,000         | 2,090,291         | (1,176,291)                 | 11,179,000        |
|                                  | <b>40,213,280</b>  | <b>10,100,064</b> | <b>(9,402,127)</b>          | <b>40,911,217</b> |

#### Reconciliation of provisions - 2016

|                         | Opening<br>Balance | Additions         | Utilised during<br>the year | Total             |
|-------------------------|--------------------|-------------------|-----------------------------|-------------------|
| Performance bonus       | 6,444,277          | 7,150,537         | (6,444,277)                 | 7,150,537         |
| Provision for leave     | 18,244,713         | 1,049,454         | (377,424)                   | 18,916,743        |
| Post-employment medical | 3,410,000          | 772,000           | (301,000)                   | 3,881,000         |
| Long-service awards     | 9,769,000          | 1,921,236         | (1,425,236)                 | 10,265,000        |
|                         | <b>37,867,990</b>  | <b>10,893,227</b> | <b>(8,547,937)</b>          | <b>40,213,280</b> |

|                         |                   |                   |
|-------------------------|-------------------|-------------------|
| Non-current liabilities | 29,040,301        | 29,418,817        |
| Current liabilities     | 11,870,916        | 10,794,463        |
|                         | <b>40,911,217</b> | <b>40,213,280</b> |

### 12. Unspent conditional grants and receipts

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

##### Unspent conditional grants and receipts

|   |                  |                  |
|---|------------------|------------------|
| Finance management grant (FMG)                        | 9,118            | 121,088          |
| Water Services Operating Grants(WSOG)                 | -                | -                |
| Municipal Infrastructure Grant(MIG)                   | -                | -                |
| Municipal Systems Improvement Grant(MSIG)             | -                | -                |
| Expanded Public Works Programme(EPWP)                 | 450,919          | -                |
| Rural Transport Services Infrastructure Grant (RTSIG) | 106,087          | -                |
| Municipal Water Infrastructure grant(MWIG)            | -                | 7,449,016        |
| EEDG  | -                | -                |
| Rural Housing Infrastructure Grant(RHIG)              | -                | 4,897            |
| Water Services Infrastructure Grants (WSIG)           | 781,196          | -                |
|   | <b>1,347,320</b> | <b>7,575,001</b> |

##### Municipal infrastructure grant (MIG)

|   |               |               |
|---|---------------|---------------|
| Balance unspent at beginning of year    | -             | 7,000,000     |
| Funds returned to Treasury              | -             | -             |
| Current year receipts                   | 273,872,000   | 259,966,000   |
| Conditions met - transferred to revenue | (207,523,214) | (333,314,786) |
| Transferred to/from debtor              | (66,348,786)  | 66,348,786    |
|   | -             | -             |

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| <b>12. Unspent conditional grants and receipts (continued)</b>                    |                |                  |
| <b>Finance management grant (FMG)</b>   |                |                  |
| Balance unspent at beginning of year  | 121,088        | -                |
| Funds returned to Treasury  | (121,088)      | -                |
| Current year receipts   | 1,250,000      | 1,250,000        |
| Conditions met - transferred to revenue   | (1,240,882)    | (1,128,912)      |
|   | <b>9,118</b>   | <b>121,088</b>   |
| <b>Water services operating grant (WSOG)</b>                                      |                |                  |
| Balance unspent at beginning of year  | -              | -                |
| Funds returned to Treasury  | -              | -                |
| Current year receipts   | -              | 35,000,000       |
| Conditions met - transferred to revenue   | -              | (35,000,000)     |
|   | -              | -                |
| <b>Municipal Systems Improvement Grant (MSIG)</b>                                 |                |                  |
| Balance unspent at beginning of year  | -              | -                |
| Funds returned to Treasury  | -              | -                |
| Current year receipts   | -              | 940,000          |
| Conditions met - transferred to revenue   | -              | (940,000)        |
|   | -              | -                |
| <b>Expanded Public Works Programme Integrated Grant for Municipalities (EPWP)</b> |                |                  |
| Balance unspent at beginning of year  | -              | -                |
| Funds returned to Treasury  | -              | -                |
| Current year receipts   | 2,922,000      | 1,921,000        |
| Conditions met - transferred to revenue   | (2,471,081)    | (1,921,000)      |
|   | <b>450,919</b> | -                |
| <b>Municipal Water Infrastructure Grant (MWIG)</b>                                |                |                  |
| Balance unspent at beginning of year  | 7,449,016      | -                |
| Funds returned to Treasury  | (7,449,016)    | -                |
| Current year receipts   | -              | 58,308,000       |
| Conditions met - transferred to revenue   | -              | (50,858,984)     |
|   | -              | <b>7,449,016</b> |

# Capricorn District Municipality

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|--|----------------|------------------|
| <b>12. Unspent conditional grants and receipts (continued)</b>   |                |                  |
| <b>EEDG</b>  |                |                  |
| Balance unspent at beginning of year   | -              | 994,094          |
| Funds returned to Treasury   | -              | -                |
| Current year receipts  | -              | -                |
| Conditions met - transferred to revenue  | -              | (994,094)        |
|  | -              | -                |
| <b>Rural household infrastructure grant (RHIG)</b>   |                |                  |
| Balance unspent at beginning of year   | 4,897          | 4,500,000        |
| Funds returned to Treasury   | (4,897)        | -                |
| Current year receipts  | -              | 4,500,000        |
| Conditions met - transferred to revenue  | -              | (8,995,103)      |
|  | -              | <b>4,897</b>     |
| <b>Rural transport services infrastructure grant (RTSIG)</b>   |                |                  |
| Balance unspent at beginning of year   | -              | -                |
| Funds returned to Treasury   | -              | -                |
| Current year receipts  | 3,634,000      | 2,190,000        |
| Conditions met - transferred to revenue  | (3,527,913)    | (2,190,000)      |
|  | <b>106,087</b> | -                |
| <b>Water Services Infrastructure grant (WSIG)</b>  |                |                  |
| Balance unspent at beginning of year   | -              | -                |
| Funds returned to Treasury   | -              | -                |
| Current year receipts  | 102,800,000    | -                |
| Conditions met - transferred to revenue  | (102,018,804)  | -                |
|  | <b>781,196</b> | -                |
| MWIG and WSOG have been discontinued and a new grant (Water Services Infrastructure Grant) is now being received by the municipality |                |                  |
| <b>13. Finance lease obligation</b>  |                |                  |
| <b>Minimum lease payments due</b>  |                |                  |
| - within one year  | 69,200         | 1,432,235        |
| - in second to fifth year inclusive  | 14,339         | 83,539           |
|  | 83,539         | 1,515,774        |
| less: future finance charges   | (4,442)        | (66,149)         |
| <b>Present value of minimum lease payments</b>   | <b>79,097</b>  | <b>1,449,625</b> |
| <b>Present value of minimum lease payments due</b>   |                |                  |
| - within one year  | 64,982         | 1,370,528        |
| - in second to fifth year inclusive  | 14,115         | 79,097           |
|  | <b>79,097</b>  | <b>1,449,625</b> |
| Non-current liabilities  | 14,115         | 79,097           |
| Current liabilities  | 64,982         | 1,370,528        |
|  | <b>79,097</b>  | <b>1,449,625</b> |

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Notes to the Audited Financial Statements

| Figures in Rand  | 2017              | 2016              |
|--|-------------------|-------------------|
| <b>14. Operating lease accrual</b>                                       |                   |                   |
| Current liabilities  | (288,159)         | (253,767)         |
|  | <b>(288,159)</b>  | <b>(253,767)</b>  |
| Future lease payments under non- cancellable operating lease:            |                   |                   |
| <b>Rental of office buildings</b>  |                   |                   |
| Payable within one year  | 3,969,378         | 3,675,350         |
| Payable within two to five years   | 394,803           | 3,998,623         |
| Payable within more than five years                                      | -                 | -                 |
|  | <b>4,364,181</b>  | <b>7,673,973</b>  |
| Minimum lease payments recognised in statement of financial performance. |                   |                   |
| Rental of buildings  | 6,665,754         | 4,408,330         |
| <b>15. Consumer debtors</b>  |                   |                   |
| <b>Gross balances</b>  |                   |                   |
| Water and sanitation   | 185,501,220       | 166,308,964       |
| <b>Less: Allowance for impairment</b>                                    |                   |                   |
| Water and sanitation   | (136,163,812)     | (120,487,651)     |
| <b>Net balance</b>   |                   |                   |
| Water and sanitation   | 49,337,408        | 45,821,313        |
| <b>Water</b>   |                   |                   |
| Current (0 -30 days)   | 5,384,621         | 5,206,087         |
| 31 - 60 days   | 5,292,866         | 4,424,194         |
| 61 - 90 days   | 4,597,006         | 3,765,674         |
| 91 - 120 days  | 3,903,047         | 3,913,671         |
| 121 - 365 days   | 30,159,868        | 28,511,687        |
|  | <b>49,337,408</b> | <b>45,821,313</b> |

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Notes to the Audited Financial Statements

| Figures in Rand   | 2017                 | 2016                 |
|---|----------------------|----------------------|
| <b>15. Fruitless and wasteful expenditure (continued)</b> |                      |                      |
| <b>Summary of debtors by customer classification</b>      |                      |                      |
| <b>Consumers</b>  |                      |                      |
| Current (0 -30 days)                                      | 5,161,849            | 4,260,220            |
| 31 - 60 days  | 5,829,779            | 4,703,522            |
| 61 - 90 days  | 5,672,269            | 4,414,498            |
| 91 - 120 days   | 5,438,947            | 4,280,794            |
| 121 - 365 days  | 131,850,314          | 102,427,027          |
|   | <b>153,953,158</b>   | <b>120,086,061</b>   |
| Less: Allowance for impairment                            | (128,638,538)        | (99,100,747)         |
|   | <b>25,314,620</b>    | <b>20,985,314</b>    |
| <b>Industrial/ commercial</b>                             |                      |                      |
| Current (0 -30 days)                                      | 339,615              | 656,302              |
| 31 - 60 days  | 437,121              | 483,958              |
| 61 - 90 days  | 310,585              | 360,342              |
| 91 - 120 days   | 287,387              | 503,625              |
| 121 - 365 days  | 7,785,720            | 12,425,418           |
|   | <b>9,160,428</b>     | <b>14,429,645</b>    |
| Less: Allowance for impairment                            | (7,525,273)          | (11,963,698)         |
|   | <b>1,635,155</b>     | <b>2,465,947</b>     |
| <b>National and provincial government</b>                 |                      |                      |
| Current (0 -30 days)                                      | 478,117              | 821,266              |
| 31 - 60 days  | 308,147              | 298,050              |
| 61 - 90 days  | 352,861              | 378,476              |
| 91 - 120 days   | 280,180              | 886,723              |
| 121 - 365 days  | 20,905,908           | 19,858,342           |
|   | <b>22,325,213</b>    | <b>22,242,857</b>    |
| <b>Total</b>  |                      |                      |
| Current (0 -30 days)                                      | 5,979,580            | 5,737,787            |
| 31 - 60 days  | 6,575,047            | 5,485,531            |
| 61 - 90 days  | 6,335,715            | 5,153,316            |
| 91 - 120 days   | 6,006,514            | 5,671,143            |
| 121 - 365 days  | 160,604,363          | 134,837,982          |
|   | <b>185,501,219</b>   | <b>156,885,759</b>   |
| Less: Allowance for impairment                            | (136,163,811)        | (111,064,446)        |
|   | <b>49,337,408</b>    | <b>45,821,313</b>    |
| <b>Less: Allowance for impairment</b>                     |                      |                      |
| Current (0 -30 days)                                      | (594,959)            | (531,700)            |
| 31 - 60 days  | (1,282,182)          | (1,061,337)          |
| 61 - 90 days  | (1,738,709)          | (1,387,642)          |
| 91 - 120 days   | (2,103,468)          | (1,757,471)          |
| 121 - 365 days  | (130,444,494)        | (115,749,501)        |
|   | <b>(136,163,812)</b> | <b>(120,487,651)</b> |

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Notes to the Audited Financial Statements

| Figures in Rand   | 2017                 | 2016                 |
|---|----------------------|----------------------|
| <b>15. Fruitless and wasteful expenditure (continued)</b>   |                      |                      |
| <b>Reconciliation of allowance for impairment</b>   |                      |                      |
| Balance at beginning of the year  | (120,487,651)        | (83,283,498)         |
| Contributions to allowance  | (48,709,955)         | (32,635,222)         |
| Debt impairment written off against allowance   | 39,853,188           | -                    |
| VAT on impairment   | (6,819,394)          | (4,568,931)          |
|   | <b>(136,163,812)</b> | <b>(120,487,651)</b> |
| <b>16. Revenue</b>  |                      |                      |
| Rendering of services   | 20,765,444           | -                    |
| Service charges   | 61,396,430           | 58,327,844           |
| Other income  | 692,925              | 1,739,266            |
| Interest received - external investment   | 25,367,411           | 23,258,349           |
| Interest earned -outstanding receivables  | 7,838,453            | 1,839,079            |
| Other income  | 3,997,788            | -                    |
| Government grants & subsidies   | 839,491,898          | 873,052,878          |
|   | <b>959,550,349</b>   | <b>958,217,416</b>   |
| <b>The amount included in revenue arising from exchanges of goods or services are as follows:</b> |                      |                      |
| Service charges   | 61,396,430           | 58,327,844           |
| Rendering of services   | 20,765,444           | -                    |
| Other income  | 692,925              | 1,739,266            |
| Interest received - external investment   | 25,367,411           | 23,258,349           |
| Interest earned -outstanding receivables  | 7,838,453            | 1,839,079            |
|   | <b>116,060,663</b>   | <b>85,164,538</b>    |

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Notes to the Audited Financial Statements

| Figures in Rand   | 2017               | 2016               |
|---|--------------------|--------------------|
| <b>16. Revenue (continued)</b>  |                    |                    |
| <b>The amount included in revenue arising from non-exchange transactions is as follows:</b> |                    |                    |
| Other income  | 3,997,788          | -                  |
| <b>Transfer revenue</b>   |                    |                    |
| Government grants & subsidies   | 839,491,898        | 873,052,878        |
|   | <b>843,489,686</b> | <b>873,052,878</b> |

Included within Government Grants and Subsidies are the following:

|   |                          |
|---|--------------------------|
| <b>Share</b>  | <b>Equitable</b>         |
| Constitution, this grant is an unconditional grant. In terms of the Constitution, this allocation is to provide for an equitable sharing of National Revenue. It is primarily for the provision of basic services.  | In terms of the          |
|   | <b>MIG</b>               |
| conditional grant with a purpose to assist municipalities to build in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act and related legislation, policies and the local government turnaround strategy. | MIG is a                 |
|   | <b>Expanded Public</b>   |
| <b>Works Programme Integrated Grant for Municipalities (EPWP)</b>   | To incentivise           |
| municipalities to expand work creation efforts through the use of labour intensive delivery methods in identified focus areas, in compliance with the Expanded Public Works Programme guidelines.   |                          |
|   | <b>Municipal Systems</b> |
| <b>Improvement Grant (MSIG)</b>   | To assist                |
| municipalities build in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act and related legislation, policies and the local government turnaround strategy.   |                          |
|   | <b>Water</b>             |
| <b>Services Operating Subsidy Grant (WSOG)</b>  |                          |
| To subsidise and build capacity in water schemes owned and/or operated by the Department of Water Affairs or by other agencies on behalf of the department and transfer these schemes to local government.  |                          |
|   | <b>Local</b>             |
| <b>Government Financial Management Grant (LGFMG)</b>  |                          |
| To promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act.  |                          |
|   | <b>Rural</b>             |
| <b>transport services infrastructure grant (RTSIG)</b>  | To                       |
| assist rural district municipalities to set up rural Road Asset Management Systems, and collect road and traffic data in line with the Road Infrastructure Strategic Framework for South Africa.  |                          |
|   | <b>Municipal</b>         |
| <b>Water Infrastructure Grant (MWIG)</b>  | To                       |
| assist Water Services Authorities (WSAs) to provide water supply services to consumers currently without services, particularly those in rural areas.   |                          |
|   | <b>Energy</b>            |
| <b>Efficiency and Demand Side Management Grant (EEDG)</b>   |                          |
| To provide subsidies to municipalities to implement Energy Efficiency and Demand Side Management initiatives within municipal infrastructure, in order to reduce electricity consumption and improve energy efficiency.   |                          |
|   | <b>Rural</b>             |
| <b>Household Infrastructure Grant (RHIG)</b>  | To                       |
| provide specific capital funding for the reduction of rural sanitation backlogs and to target existing households where bulk-dependent services are not viable.   |                          |



# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Notes to the Audited Financial Statements

| Figures in Rand  | 2017               | 2016               |
|--|--------------------|--------------------|
| <b>17. Employee related costs</b>  |                    |                    |
| Basic  | 155,464,252        | 148,137,351        |
| Bonus  | 5,866,709          | 8,937,654          |
| Medical aid - company contributions  | 43,438,586         | 46,018,581         |
| Other employee related benefits  | 88,939             | 175,532            |
| Travel, motor car, accommodation, subsistence and other allowances   | 18,064,540         | 17,462,639         |
| Overtime payments  | 18,069,249         | 16,014,832         |
| Housing benefits and allowances  | 2,395,023          | 2,344,565          |
|  | <b>243,387,298</b> | <b>239,091,154</b> |
| <b>Other employee related costs includes</b>   |                    |                    |
| Union Affiliations   | 65,971             | 61,995             |
| Special allowance  | 22,968             | 113,537            |
|  | <b>88,939</b>      | <b>175,532</b>     |
| The other employee related benefits for 2016 decreased as a result of reclassification of employee assistance programme from employee related costs to general expenses. |                    |                    |
| <b>Remuneration of Municipal Manager</b>   |                    |                    |
| Car Allowance and other allowances   | 498,030            | 909,431            |
| The Municipal Manager resigned June 2015, and the position is still vacant. The amount paid in 2017 financial year relates to acting allowances.                         |                    |                    |
| <b>Remuneration of Chief Finance Officer</b>   |                    |                    |
| Car Allowance and other allowances   | 83,973             | 401,053            |
| Performance Bonuses  | -                  | 78,689             |
|  | <b>83,973</b>      | <b>479,742</b>     |
| The Chief Finance Officer resigned April 2015, and the position is still vacant. The amount paid in 2017 financial year relates to acting allowances.                    |                    |                    |
| <b>Remuneration of Technical Services</b>  |                    |                    |
| Annual Remuneration  | 1,344,273          | 364,918            |
| Car Allowance and other allowances   | 642,801            | 479,782            |
| Performance Bonuses  | 23,801             | -                  |
| Contributions to UIF, Medical and Pension Funds  | 1,487              | 936                |
|  | <b>2,012,362</b>   | <b>845,636</b>     |
| <b>Remuneration of Development, Economic and Planning Management Services</b>  |                    |                    |
| Annual Remuneration  | 1,076,603          | 1,008,856          |
| Car Allowance and other allowances   | 137,499            | 137,445            |
| Performance Bonuses  | 65,801             | 55,466             |
| Contributions to UIF, Medical and Pension Funds  | 82,530             | 77,536             |
|  | <b>1,362,433</b>   | <b>1,279,303</b>   |
| <b>Remuneration of Strategic Support Services</b>  |                    |                    |
| Annual Remuneration  | 1,346,370          | 971,479            |
| Car Allowance and other allowances   | 558,277            | 196,835            |
| Performance Bonuses  | 63,363             | 83,961             |

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Notes to the Audited Financial Statements

| Figures in Rand                                 | 2017             | 2016             |
|---|------------------|------------------|
| <b>17. Employee related costs (continued)</b>   |                  |                  |
| Contributions to UIF, Medical and Pension Funds | 168,529          | 238,230          |
|   | <b>2,136,539</b> | <b>1,490,505</b> |

### Remuneration of Corporate Services

|   |                  |                |
|---|------------------|----------------|
| Annual Remuneration                             | 489,729          | 349,828        |
| Car Allowance and other allowances              | 687,098          | 449,945        |
| Performance Bonuses                             | 22,817           | -              |
| Contributions to UIF, Medical and Pension Funds | 108,288          | 75,625         |
|   | <b>1,307,932</b> | <b>875,398</b> |

### Remuneration of Community Services

|   |                  |                  |
|---|------------------|------------------|
| Annual Remuneration                             | 911,502          | 583,213          |
| Car Allowance and other allowances              | 438,140          | 367,240          |
| Performance Bonuses                             | 29,456           | -                |
| Contributions to UIF, Medical and Pension Funds | 131,947          | 108,606          |
|   | <b>1,511,045</b> | <b>1,059,059</b> |

### 18. Remuneration of councillors

|   |                   |                   |
|---|-------------------|-------------------|
| Executive Mayor                                   | 914,563           | 884,921           |
| Chief Whip  | 703,432           | 654,093           |
| Mayoral Committee Members                         | 3,899,851         | 3,554,512         |
| Speaker   | 679,920           | 696,069           |
| Councillors                                       | 4,589,613         | 3,962,256         |
| Councillors' pension and medical aid contribution | 380,416           | 485,048           |
| Councillors' allowances                           | 1,074,055         | 1,492,326         |
|   | <b>12,241,850</b> | <b>11,729,225</b> |

The salaries, allowances and benefits of political office-bearers and councillors of the municipality, are within the upper limits of the framework envisaged in section 219 of the Constitution read with the Remuneration of Public Office Bearers Act (Act 20 of 1998 and the Minister of Provincial and Local Government's determination in accordance with this Act.

#### In-kind benefits

The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council. The Executive Mayor and the Speaker have use of a Council owned vehicle for official duties.

The Executive Mayor has three full-time bodyguards.

### 19. Commission Expense

Commission is paid to local municipalities for the management of water related services.

|                  |         |            |
|------------------|---------|------------|
| Water commission | 227,886 | 27,531,701 |
|------------------|---------|------------|

### 20. Depreciation and amortisation

|                               |                   |                   |
|-------------------------------|-------------------|-------------------|
| Property, plant and equipment | 50,658,997        | 53,270,507        |
| Intangible assets             | 4,087,768         | 3,897,692         |
|                               | <b>54,746,765</b> | <b>57,168,199</b> |

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Notes to the Audited Financial Statements

| Figures in Rand  | 2017       | 2016        |
|--|------------|-------------|
| <b>21. Derecognition of Assets</b>   |            |             |
| Derecognition of assets  | 30,968,200 | 15,274,549  |
| <p>These relate to Aganang water projects which were under construction at the time of the demarcation date on the 10th of August 2016. These assets were transferred to Polokwane Municipality directly from work in progress (R23 009 195) and roads completed in the current year (R7 959 004).</p> |            |             |
| <b>22. Finance costs</b>   |            |             |
| Finance, other interest and penalties  | 991,725    | 273,334     |
| <b>23. Bulk purchases</b>  |            |             |
| Water  | 47,965,290 | 46,808,766  |
| <p>Purchases of water from Lepelle Northern Water.</p>   |            |             |
| <b>24. Grants and subsidies paid</b>   |            |             |
| Grants paid to local municipalities  | 1,600,000  | -           |
| <b>25. Loss on Acturial Valuations</b>   |            |             |
| Actuarial gains/losses   | (687,139)  | (1,397,053) |

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Notes to the Audited Financial Statements

| Figures in Rand                                    | 2017              | 2016               |
|--|-------------------|--------------------|
| <b>26. Commitments</b>                             |                   |                    |
| <b>Authorised capital expenditure</b>              |                   |                    |
| <b>Already contracted for but not provided for</b> |                   |                    |
| • Infrastructure                                   | 80,760,662        | 165,641,900        |
| • Other  | 3,063,813         | -                  |
|  | <b>83,824,475</b> | <b>165,641,900</b> |
| <b>Total capital commitments</b>                   |                   |                    |
| Already contracted for but not provided for        | 83,824,475        | 165,641,900        |
| <b>This expenditure will be financed from:</b>     |                   |                    |
| Government Grants - conditional                    | 80,760,662        | 165,641,900        |
| Equitable share grants                             | 3,063,813         | -                  |
|  | <b>83,824,475</b> | <b>165,641,900</b> |
| <b>Authorised operational expenditure</b>          |                   |                    |
| <b>Already contracted for but not provided for</b> |                   |                    |
| • Infrastructure                                   | 2,361,850         | 206,810            |
| • Community  | 7,809,402         | 6,747,192          |
| • Other  | 5,619,905         | 3,741,531          |
|  | <b>15,791,157</b> | <b>10,695,533</b>  |
| <b>Total operational commitments</b>               |                   |                    |
| Already contracted for but not provided for        | 15,791,157        | 10,695,533         |
| <b>This expenditure will be financed from:</b>     |                   |                    |
| Equitable share grant                              | 15,791,157        | 10,695,533         |
| <b>Total commitments</b>                           |                   |                    |
| <b>Total commitments</b>                           |                   |                    |
| Authorised capital expenditure                     | 83,824,475        | 165,641,900        |
| Authorised operational expenditure                 | 15,791,157        | 10,695,533         |
|  | <b>99,615,632</b> | <b>176,337,433</b> |
| <b>This expenditure will be financed from:</b>     |                   |                    |
| Government grants - conditional                    | 80,760,662        | 165,641,900        |
| Equitable share grant                              | 18,854,970        | 10,695,533         |
|  | <b>99,615,632</b> | <b>176,337,433</b> |

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Notes to the Audited Financial Statements

| Figures in Rand   | 2017               | 2016               |
|---|--------------------|--------------------|
| <b>27. Cash generated from operations</b>                     |                    |                    |
| Surplus   | 25,874,851         | 295,882,194        |
| <b>Adjustments for:</b>                                       |                    |                    |
| Depreciation and amortisation                                 | 54,746,765         | 57,168,199         |
| Changes on disposal of assets                                 | 291,286,166        | 455,841            |
| Impairment of assets  | 765,983            | 2,447,232          |
| Debt impairment   | 49,295,804         | 32,635,222         |
| Movements in operating lease assets and accruals              | 34,392             | 253,767            |
| Movements in provisions                                       | 10,794             | 2,345,290          |
| Loss on actuarial valuations                                  | 687,139            | 1,397,053          |
| Other income- retention liability written back                | (3,997,788)        | -                  |
| Bad debt write off  | 5,161,350          | -                  |
| Derecognition of assets                                       | 30,968,200         | 15,274,549         |
| Stock losses  | -                  | 231,074            |
| <b>Changes in working capital:</b>                            |                    |                    |
| Inventories   | (112,927)          | 2,732,450          |
| Receivables from exchange transactions                        | (496,995)          | (480,241)          |
| Other receivables from non-exchange transactions              | 66,348,786         | (66,348,786)       |
| Prepayments   | (2,028,295)        | (331,262)          |
| Payables from exchange transactions                           | (88,399,114)       | 83,137,930         |
| VAT   | 24,795,344         | (3,405,759)        |
| Unspent conditional grants and receipts                       | (6,227,681)        | (4,919,093)        |
| Commission receivable (Receivables from exchange transaction) | (6,902,022)        | -                  |
| Consumer debtors  | (57,387,400)       | (33,792,455)       |
|   | <b>384,423,352</b> | <b>384,683,205</b> |

### 28. Unauthorised expenditure

|   |                    |                    |
|---|--------------------|--------------------|
| Opening balance                         | 122,659,509        | 56,310,723         |
| Unauthorised expenditure - current year | -                  | 66,348,786         |
|   | <b>122,659,509</b> | <b>122,659,509</b> |

2017: No unauthorised expenditure has been incurred.

2016: Unauthorised expenditure relates to the municipal infrastructure grant that was overspend. The unauthorised expenditure was investigated by S32 Committee and waiting for Council approval.

### 29. Irregular expenditure

|   |                   |                   |
|---|-------------------|-------------------|
| Opening balance                           | 43,021,949        | 41,836,300        |
| Add: Irregular Expenditure - current year | 1,172,670         | 1,185,649         |
|   | <b>44,194,619</b> | <b>43,021,949</b> |

2017: Qualis invoices paid into court settlement

2016: The irregular expenditure is as a result of appointments made in the 11/12 financial year that are in the process of completion in the 13/14 financial year. The above expenditure was mainly due to the payments of the final retention certificates after completion of the projects. The irregular expenditure was investigated by S32 Committee and waiting for Council approval.

### 30. Fruitless and wasteful expenditure

|  |                  |                |
|--|------------------|----------------|
| Opening balance  | 607,085          | 607,085        |
| Add: Fruitless and wasteful expenditure - current year | 930,016          | -              |
|  | <b>1,537,101</b> | <b>607,085</b> |

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Notes to the Audited Financial Statements

Figures in Rand 2017      2016

### 30. Fruitless and wasteful expenditure (continued)

2017: Fruitless and wasteful expenditure relates to interest charges for late payments of invoices.

2016: Fruitless and wasteful expenditure relates to interest and penalties paid to SARS.

The fruitless and wasteful expenditure was investigated by S32 Committee and waiting for Council approval.

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

#### Contributions to organised local government

|                                 |                  |                  |
|---------------------------------|------------------|------------------|
| Opening balance                 | 2,852,980        | 2,521,718        |
| Current year subscription / fee | (2,852,980)      | (2,846,534)      |
| Amount paid - current year      | 2,842,932        | 2,852,980        |
| Amount paid - previous years    | -                | 324,816          |
|                                 | <b>2,842,932</b> | <b>2,852,980</b> |

The amount of R 2 842 932 is paid in advance as a result of the discount given for early payment.

#### Audit fees payable

|                                 |               |               |
|---------------------------------|---------------|---------------|
| Opening balance                 | 85,946        | 25,316        |
| Current year subscription / fee | 2,570,606     | 3,308,767     |
| Amount paid - current year      | (2,639,350)   | (3,248,137)   |
|                                 | <b>17,202</b> | <b>85,946</b> |

#### PAYE, UIF and SDL payable

|                                 |              |              |
|---------------------------------|--------------|--------------|
| Current year subscription / fee | 45,557,187   | 39,015,264   |
| Amount paid - current year      | (45,557,187) | (39,015,264) |
|                                 | -            | -            |

#### Pension, UIF and medical aid deductions payable

|                                 |              |              |
|---------------------------------|--------------|--------------|
| Current year subscription / fee | 43,299,433   | 38,899,833   |
| Amount paid - current year      | (43,299,433) | (38,899,833) |
|                                 | -            | -            |

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

## Notes to the Audited Financial Statements

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2017

2016

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

#### Arrear consumer account: Councillors

The following Councillors had arrear accounts outstanding for more than 90 days as at 30 June 2017:

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

| 30 June 2017   |               |               |
|----------------|---------------|---------------|
| Ramoshaba LL   | -             | 1,640         |
| Macheke K.J    | -             | 5,156         |
| Sibanda P.S    | -             | 472           |
| Phaahla K.G    | -             | 208           |
| Mashiane M.E   | -             | 308           |
| Phosa N.B      | -             | 105           |
| Ramalla T      | -             | 9,060         |
| Mokgophi M.T   | -             | 14,174        |
| Kgweedi M.M    | 5,689         | -             |
| Doubada N.M    | 18,694        | -             |
| Morotoba N.L   | 5,661         | -             |
| Choung C.M     | 9,214         | -             |
| Tlabjane       | 41,601        | -             |
| Maleka P.I     | 518           | -             |
| Mphahlele M.T. | 11,206        | -             |
| Mphuti T       | 4,079         | -             |
|                | <b>96,662</b> | <b>31,123</b> |

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

#### Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations, any deviation from supply chain management policy needs to be approved/condoned by the Municipal Manager, and noted by Council.

The expenses incurred, as listed below, have been approved/condoned by the Municipal Manager and noted by Council.

#### Incident

|   |                  |                  |
|---|------------------|------------------|
| Acquiring a service to repair and calibrate - sole provider   | 18,155           | 28,158           |
| Disaster Services - Emergency   | -                | 69,560           |
| Replacement of the faulty power board - sole provider   | -                | 3,990            |
| Durban Tourism Indaba: Stand Design and Construction - Sole provider  | 92,232           | 169,998          |
| Durban Tourism Indaba: 2015 Stand Design and Construction - Sole provider   | 47,148           | 74,118           |
| Environmental education awareness programme - Only limpopo based organisation offering the programme                        | -                | 217,380          |
| Procurement of water tankers for the shortage of water - Emergency  | -                | 136,000          |
| Provision of Protocol Training for councillors and officials - Most providers do not offer the accredited protocol training | -                | 29,009           |
| Repair and calibrate Lancom Fluegas analyser - Sole provider  | -                | 11,479           |
| Verification and unbundling of municipal assets - Impractical to follow procurement proces                                  | -                | 2,500,000        |
| Forensic Investigation In respect of irregularities identified at CDM   | 314,404          | -                |
| Environmental education awareness programme - Sole provider   | 141,240          | -                |
| Inauguration Gala Dinner for the new Council - Impractical to follow procurement process                                    | 128,040          | -                |
| Servicing and maintenance of Cascade Systems - Sole provider  | 13,333           | -                |
| Training of Bead Makers - Special works of art  | 131,763          | -                |
| Repair and calibrate E samplers - Sole providers  | 63,177           | -                |
| Maintenance of Backup Generators - Impractical to follow procurement process  | 34,368           | -                |
| World Travel Market - Sole provider for implementing agent of the 2017 Cape Town World Travel Market                        | 46,445           | -                |
| Environmental education awareness programme - Sole provider   | 141,240          | -                |
| Purchasing of fire arms - Impractical to follow procurement processes   | 71,440           | -                |
| Provision of programme director and local artist coordinator - Special works of art   | 20,520           | -                |
| Performing of artist (gospel artist) - Special works of art   | 5,000            | -                |
| Performing of artist (Morasky) - Special works of art   | 10,000           | -                |
| Performing of artist (Janisto and CK) - Special works of art  | 15,000           | -                |
| Performing of artist (Spenza Man) - Special works of art  | 9,500            | -                |
| Performing of artist (Dr Malinga) - Special works of art  | 30,000           | -                |
| Implementation of records management module - Impractical to follow procurement processes                                   | 1,599,185        | -                |
|   | <b>2,932,190</b> | <b>3,239,692</b> |

#### The following deviations were made on rate basis;

Legal representation in the matter between Ledwaba and 2 others Vs the municipality - Impractical to follow procurement processes

Servicing and maintenance of Cascade Systems - Sole provider

2 x Subscription for newspapers - Special works of art

Radio Broadcasting - Special works of art

Newspaper Publishing - Special works of art

Mail archiving of the Municipality - Sole owner of the Mimecast mail Archiving solution

Provision of copiers, printing and faxing and scanning for 2 months - Impractical to follow procurement processes

Analyse full SANS water samples - Impractical to follow procurement processes

#### Non-Disclosure of Interest

The following interests exists between the service providers doing business with the municipality and officials employed by the municipality.



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

| Name of official | Position Held                         | Name of Company   | Owner           | Column heading |
|------------------|---------------------------------------|-------------------|-----------------|----------------|
| MP Ramutsindela  | Senior Accountant Budget and Treasury | Naldorite Pty Ltd | TP Ramutsindela | 28,000         |

### 32. Contingent Liability

#### Claim for damages

The Municipality has a contingent liability of R34 693 897 due to it being sued by service providers.

|                              |                   |                   |
|------------------------------|-------------------|-------------------|
| M.Tech Rustenburg            | 16,105,595        | 16,105,595        |
| In Situ Consulting Engineers | 256,934           | 256,934           |
| Storm Fencing                | 582,491           | 582,491           |
| T. Phogole/ CDM              | 230,378           | 230,378           |
| Qualis Consulting            | 1,725,856         | 1,725,856         |
| In Touch                     | 3,501,178         | 3,501,178         |
| M Rapetsoa                   | 138,000           | 138,000           |
| SS Sebone                    | 69,627            | 69,627            |
| Mantella Trading             | -                 | 3,553,066         |
| Royal Haskoning              | 11,422,569        | 11,422,569        |
| Star Miris                   | 661,269           | -                 |
|                              | <b>34,693,897</b> | <b>37,585,694</b> |

#### Interest and penalties

SARS has conducted a PAYE audit and levied additional PAYE, SDL, interest and penalties against the municipality. The municipality has objected to this and is of the view that the objection will be successful.

|                        |           |           |
|------------------------|-----------|-----------|
| Interest and penalties | 1,762,944 | 1,762,944 |
|------------------------|-----------|-----------|

Guarantee held by Eskom for the supply of electricity to Lebowakgomo sewage plant amounting to R294 600 .

The Guarantor reserves the right to withdraw from the guarantee upon providing 3 (three) months notice in writing of its intention.

The guarantee is neither negotiable or transferable and is limited to the payment of money only.

### 33. Related parties

|   |         |
|---|---------|
| Relationships   |         |
| Compensation to councillors   | Note 18 |
| Contributions to organised Local Government                                       | Note 29 |
| Post employment benefit plan for employees of entity and/or other related parties | Note 9  |
| Members of key management   | Note 17 |

# Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2017

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|---|--------------------|--------------------|
| <b>34. General expenses</b>               |                    |                    |
| Advertising                               | 2,392,242          | 3,651,901          |
| Assessment rates & municipal charges      | 1,308,931          | 1,468,482          |
| Auditors remuneration                     | 2,570,577          | 3,308,767          |
| Bank charges                              | 127,748            | 165,163            |
| Bursaries                                 | 1,508,769          | 1,630,401          |
| Cleaning                                  | 537,085            | 595,010            |
| Conferences and seminars                  | 2,805,367          | 4,249,521          |
| Consulting and professional fees          | 6,043,407          | 3,428,935          |
| Consumables                               | 574,778            | 429,295            |
| Entertainment                             | 40,316             | 119,000            |
| Financial Management                      | 4,560,834          | 7,284,004          |
| Fleet                                     | 6,869,731          | 7,355,745          |
| Insurance                                 | 1,003,522          | 1,453,713          |
| Legal expenses                            | 4,749,951          | 9,255,419          |
| Membership fees                           | 2,835,741          | 2,606,606          |
| Operational projects                      | 26,206,311         | 45,588,459         |
| Postage and courier                       | 3,119              | 6,759              |
| Printing and stationery                   | 1,080,671          | 970,888            |
| Rental of buildings                       | 6,665,754          | 4,408,330          |
| Rental of office equipment                | 1,130,633          | 542,611            |
| Security (Guarding of municipal property) | 13,367,499         | 11,251,483         |
| Skills Development                        | 2,161,978          | 2,057,219          |
| Stock losses                              | -                  | 231,074            |
| Subscriptions and membership fees         | 461,849            | 1,037,680          |
| Subsistence and travel                    | 13,853,376         | 14,425,073         |
| Telephone and fax                         | 1,921,022          | 1,869,174          |
| Training                                  | 3,418,589          | 3,513,865          |
| Uniforms                                  | 3,449,636          | 989,100            |
| Water and sanitation                      | 32,975,213         | 45,395,749         |
|   | <b>144,624,649</b> | <b>179,289,426</b> |

An amount of R2 589 (2016) for forensic investigations was reclassified from auditors remuneration to Consulting and professional fees.

### Operational projects

|                            |                   |                   |
|----------------------------|-------------------|-------------------|
| Elect -Infrastructure      | -                 | 1,810,688         |
| OPEX Environm Manage       | 3,207,160         | 20,490,065        |
| Computer Services          | 4,994,151         | 5,141,674         |
| Stakeholder Particip       | 3,631,531         | 3,314,700         |
| Other operational projects | 14,373,469        | 14,831,332        |
|                            | <b>26,206,311</b> | <b>45,588,459</b> |

### Water and Sanitation

|                                     |                   |                   |
|-------------------------------------|-------------------|-------------------|
| O&M FBW-eskom paymen                | 22,647,993        | 18,648,376        |
| Water Quality projec                | 3,025,901         | 1,774,614         |
| Household Sanitation                | 6,789,205         | 23,691,459        |
| Other water and sanitation projects | 512,114           | 1,281,300         |
|                                     | <b>32,975,213</b> | <b>45,395,749</b> |

### 35. Key sources of estimation uncertainty and judgements

In using estimates a number of assumptions are required. GRAP 1 places the responsibility on management to set these assumptions, as guided by the principles set out in GRAP 1 and in discussion with the professional consultants.

The assumptions should be realistic and mutually compatible. The difference between the assumptions drives the estimate and it is very important to monitor how this difference changes from one year's estimate to the next.

# Capricorn District Municipality

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### 35. Key sources of estimation uncertainty and judgements (continued)

The following areas involve a significant degree of estimation uncertainty:

- Useful lives and residual values of property, plant, and equipment
- Recoverable amounts of property, plant and equipment
- Present value of defined benefit obligation
- Provision for doubtful debts
- Impairment of assets
- Provision for long-term service award and medical aid benefits

The following areas involved judgements, apart from those involving estimations disclosed above, that management has made in the process of applying the municipality's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

- Impairment of assets
- Provisions

### 36. Risk management

#### Liquidity risk

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The municipality's approach is to ensure that sufficient liquidity is available to meet its liabilities when due. The municipality uses cash flow forecasts to ensure that sufficient cash is available to meet expected operating expenses. This is guided by working capital and revenue enhancement policy

The municipality uses cash flow forecasts to ensure that sufficient cash is available to meet expected operating expenses. This is guided by working capital and revenue enhancement policy

The following are contractual liabilities of which the interest is included in borrowings:

| At 30 June 2017          | Less than 1<br>year | Between 1 and<br>2 years | Between 2 and<br>5 years | Over 5 years |
|--------------------------|---------------------|--------------------------|--------------------------|--------------|
| Borrowings               | 64,982              | -                        | 14,115                   | -            |
| Trade and other payables | 57,935,074          | -                        | 68,790,514               | -            |
| At 30 June 2016          | Less than 1<br>year | Between 1 and<br>2 years | Between 2 and<br>5 years | Over 5 years |
| Borrowings               | 1,370,528           | -                        | 79,097                   | -            |
| Trade and other payables | 149,547,430         | -                        | 69,575,060               | -            |

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### 36. Risk management (continued)

#### Credit risk

##### Investments

The municipality limits its exposure to credit risk by investing with only reputable financial institutions and within specific guidelines set in accordance with Council's approved investment policy.

##### Receivables

Receivables are amounts owing by consumers and are presented net of impairment loss. The municipality has a credit control policy in place and the exposure to credit risk is monitored continuously.

The municipality establishes an allowance for doubtful debts that represents its estimate of anticipated losses in respect of receivables. Payments of accounts of consumer debtors who are unable to pay, are negotiated in line with the 'credit control policy and terms of payments are agreed upon with the consumer.

##### Cash and cash equivalents

The municipality limits its exposure to credit risk by investing with only reputable financial institutions and within specific guidelines set in accordance with Council's approved investment policy. The municipality does not consider there to be any significant exposure to credit risk.

The carrying amount of financial assets represents the maximum credit exposure.

The maximum exposure to credit risk as at 30 June was:

| Financial instrument      | 2017        | 2016        |
|---------------------------|-------------|-------------|
| Call investments          | 243,656,478 | 198,503,156 |
| Cash and cash equivalents | 2,970,870   | 7,047,869   |
| Trade receivables         | 49,337,408  | 45,821,313  |
| Other receivables         | 35,270,942  | 112,373,547 |

#### Interest rate risk

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

### 37. Impairment loss

|                               |           |             |
|-------------------------------|-----------|-------------|
| Property, plant and equipment | (765,983) | (2,447,232) |
|-------------------------------|-----------|-------------|

### 38. Comparison with the Budget

#### Material differences between budget and actual amounts

The comparison of the Municipality's actual financial performance with that budgeted is set out in the statement of comparison of budget and actual amounts.

The budget is approved on an accrual basis using a classification based on the nature of expenses. The approved budget covers the period from 01 July 2016 to 30 June 2017. The budget and accounting basis are the same.

#### Changes from the approved budget to the final budget

The changes between the approved and final budget are as a consequence of adjustments and roll-overs of grants

Variances of 10% or more are explained as set out below:

**Other income - exchange transactions (-36%)** The sale of tender documents was less than anticipated.

# Capricorn District Municipality

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### 38. Comparison with the Budget (continued)

**Interest earned outstanding receivables - (+100%)** The municipality does not budget for interest on outstanding receivables.

**Interest earned - external investments - (+112%)** More funds were invested as the municipality received the last chunk of the grants.

**Other Income - non exchange- (+100%)** The amount was as a result of retentions which were not claimed by services for a period of more than two years and have lapsed. The retentions were written back to income. The municipality did not budget for such as it was not anticipated.

**Commission received - (+100%)** The commission received resulted from the implementation of the service level agreement which indicates that only 30% commission is payable in 2017/18 financial year. The commission expense was reversed and commission received recognised.

**Grants and subsidies (-10.5%)** The conditional grants such as FMG, WSIG, EPWP and RTSIG were not fully spent at the end of the financial year and will be applied for as roll overs to be spent in the 2017/18 financial year,

**Remuneration of councillors (-12%)** The budget for remuneration of councillors was overstated.

**Commission paid - (-99%)** The reversal of commission expense as a result of 30% commission payable in 2017/18 financial year as per service level agreement .t

**Finance cost - (+109%)** Penalty paid to the service provider on the project of Lebowakgomo Waste Water and Mashite road R836 469.68 from old matter that was settled out of court.

**Repairs and maintenance - (-26%)** The budget for repairs and maintenance was overstated as a result of expenditure for operations and maintenance which was high in the previous year. )

**Transitional costs - (+100%)** The amount recognised as transitional costs is the expenditure incurred for employee related cost, operations and maintenance and other operating costs relating to Aganang Municipality which was demarcated to Polokwane Municipality. Council has resolved that the amounts be separately disclosed as transitional costs, however they were budgeted under employee related costs, operations and maintenance and general expenses.

**Transfers and subsidies - (-13%)** The municipality did not receive reports on expenditure for transfers and subsidies transferred to Molemole Municipality and Blouberg Municipality

**General expenses(-40%)**- Operational projects such as environmental management projects and water and sanitation projects such as sanitation projects had less spending that anticipated.

**The following items were not budgeted for and will have a 100% variance:**

\* Derecognition of asset

\* Loss on the disposal of assets and liabilities

\* Actuarial gains/losses

\* Impairment loss

**Bad debt written-off - (+100%)** The municipality has written off bad debts for Molemole Municipality and Blouberg Municipality through statement of financial performance and it was not budgeted for.

### 39. Changes in accounting estimates, errors and disclosure

**Correction of error**

# Capricorn District Municipality

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### 39. Changes in accounting estimates, errors and disclosure (continued)

During the financial year under review the following accounting errors were identified;

Reclassification of other income from revenue from non-exchange transaction to revenue from exchange transaction

Reclassification of employee assistance programme expenses from employee related costs to general expenses (operational projects)

Repairs and maintenance wrongly capitalised in 2015/16 financial year.

Depreciation corrected due to wrongly capitalised assets.

Motor vehicles - Capitalisation of two graders was corrected as the graders were purchased for the Blouberg Municipality and Lepelle Nkumpi municipalities in previous years.

Retentions written off as prior year error in 2014/15. The retentions could not reconcile due to lack of supporting documents.

Councillors debt overstated in previous years.

Cash and cash equivalents receipts were not captured in previous year.

Accounts payable understated in previous years due to invoices which were not approved by user departments in the relevant years.

Water infrastructure assets completed in 2014/15 were unbundled in 2016/17 financial year due to late submission of completion certificate

Presented below are those items contained in the statement of financial position and statement of financial performance that have been affected by prior year adjustments and reclassifications.

| Statement of financial position           | As previously reported | Correction of error | Reclassification | Restated             |
|---|------------------------|---------------------|------------------|----------------------|
| Cash and cash equivalents                 | 205,554,277            | (3,252)             | -                | 205,551,025          |
| Vat receivable                            | 39,741,113             | 8,642               | -                | 39,749,755           |
| Receivables from non-exchange transaction | 3,649,687              | (227,661)           | -                | 3,422,026            |
| Payables from exchange transactions       | 216,869,972            | (2,043,196)         | 4,295,712        | 219,122,488          |
| Current provisions                        | 15,090,175             | -                   | (4,295,712)      | 10,794,463           |
| Property, plant and equipment             | 2,120,779,067          | (4,100,515)         | -                | 2,116,678,552        |
|   | <b>2,601,684,291</b>   | <b>(6,365,982)</b>  | <b>-</b>         | <b>2,595,318,309</b> |

| Statement of financial performance                  | As previously reported | Correction of error | Reclassification | Restated           |
|---|------------------------|---------------------|------------------|--------------------|
| Revenue   | -                      | -                   | -                | -                  |
| Revenue from exchange transaction- Other Income     | 1,164,177              | -                   | 575,089          | 1,739,266          |
| Revenue from non-exchange transaction- Other Income | 575,089                | -                   | (575,089)        | -                  |
|   | 1,739,266              | -                   | -                | 1,739,266          |
| Expenditure   | -                      | -                   | -                | -                  |
| Employee related costs                              | 248,769,964            | -                   | (2,739,736)      | 246,030,228        |
| Depreciation  | 56,445,207             | 722,992             | -                | 57,168,199         |
| Derecognition of assets                             | 14,373,482             | 901,067             | -                | 15,274,549         |
| Repairs and maintenance                             | 40,540,347             | 754,099             | -                | 41,294,446         |
| General expenses                                    | 176,515,326            | 34,364              | 2,739,736        | 179,289,426        |
| Loss on disposal of assets and liabilities          | 463,788                | (7,947)             | -                | 455,841            |
|   | <b>538,847,380</b>     | <b>2,404,575</b>    | <b>-</b>         | <b>541,251,955</b> |

Prior period errors affecting 2015 financial year

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|---|----------------------|------------------|
| <b>39. Changes in accounting estimates, errors and disclosure (continued)</b> |                      |                  |
| <b>Retained earnings</b>  |                      |                  |
| Opening balances 1 July 2015  | 1,935,841,666        | -                |
| Sundry debtors  | (227,661)            | -                |
| Property, plant and equipment -Cost Motor Vehicles                            | (2,390,515)          | -                |
| Property, plant and equipment -Accumulated depreciation Motor Vehicles        | 1,380,511            | -                |
| Trade and other payables - Retention creditors                                | 2,113,574            | -                |
| Trade and other payables - Accounts payable                                   | 4,287                | -                |
| Vat receivable  | (34,910)             | -                |
| Property, plant and equipment -Accumulated depreciation Water infrastructure  | (720,302)            | -                |
| <b>Restated opening balance 01 July 2015</b>                                  | <b>1,935,966,650</b> | <b>-</b>         |
| <b>40. Distribution Loss</b>  |                      |                  |
| Unit purchased (kl)   | 8,368,933            | 8,260,729        |
| Units sold (kl)   | (4,539,106)          | (5,024,239)      |
|   | <b>3,829,827</b>     | <b>3,236,490</b> |
| Average cost per unit purchases (cents per kl)                                | 6.33                 | 5.53             |
| Net loss in rands   | 24,242,802           | 17,897,785       |
| % Loss in purchases of water  | 39.86 %              | 38.24 %          |
| <b>41. Other income - non exchange</b>  |                      |                  |
| Other income  | 3,997,788            | -                |
| <b>42. Receivables from non-exchange transactions</b>                         |                      |                  |
| Government grants and subsidies   | -                    | 66,348,786       |
| <b>43. Service charges</b>  |                      |                  |
| Sale of water   | 61,396,430           | 58,327,844       |

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| Figures in Rand   | 2017               | 2016               |
|---|--------------------|--------------------|
| <b>44. Government grants and subsidies</b>              |                    |                    |
| <b>Operating grants</b>                                 |                    |                    |
| Equitable share   | 435,839,373        | 432,984,680        |
| Finance Management Grant                                | 1,240,882          | 1,128,912          |
| Municipal Systems Improvement Grant                     | -                  | 940,000            |
| Rural Transport Infrastructure Grant                    | 3,527,913          | 2,190,000          |
| Municipal Water Infrastructure Grant                    | -                  | 50,858,984         |
| Energy Efficiency and Demand Management Grant           | -                  | 994,093            |
| Rural Household Infrastructure Grant                    | -                  | 8,995,103          |
| EPWP Grant  | 2,471,081          | 1,921,000          |
| Municipal Infrastructure Grant                          | 3,402,727          | -                  |
| Water Services Infrastructure Grant                     | 102,018,804        | -                  |
|   | <b>548,500,780</b> | <b>500,012,772</b> |
| <b>Capital grants</b>                                   |                    |                    |
| Municipal Infrastructure Grant                          | 204,120,487        | 325,577,765        |
| Equitable Share   | 86,870,631         | 12,462,341         |
| Water Services Operating Grant                          | -                  | 35,000,000         |
|   | <b>290,991,118</b> | <b>373,040,106</b> |
|   | <b>839,491,898</b> | <b>873,052,878</b> |
| <b>45. Other income - exchange</b>                      |                    |                    |
| Other income  | 692,925            | 1,739,266          |
| <b>46. Debt impairment</b>                              |                    |                    |
| Contributions to debt impairment provision              | 49,295,804         | 32,635,222         |
| <b>47. Interest revenue</b>                             |                    |                    |
| Interest received - outstanding receivables             | 7,838,453          | 1,839,079          |
| Interest received - external investment                 | 25,367,411         | 23,258,349         |
|   | <b>33,205,864</b>  | <b>25,097,428</b>  |
| <b>48. Auditors' remuneration</b>                       |                    |                    |
| Fees  | 2,570,577          | 3,308,767          |
| <b>49. Events after the reporting date</b>              |                    |                    |
| No events after balance sheet date has been identified. |                    |                    |
| <b>50. Commission received</b>                          |                    |                    |
| Commissions received                                    | 20,765,444         | -                  |

The municipality's service level agreement with the local municipalities states that the local municipalities will retain 30% of cash collected in the 2017/18 financial year. Commission payable was recalculated to 30% of the net debtors which has resulted in reversal of commission expense and recognition of commission received.



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### 51. Bad debt written-off

|  |             |           |   |
|--|-------------|-----------|---|
| Bad debt written off                                   |             | 5,161,350 | - |
| Write-off through an expense account (I/S)             | R 5 161 350 |           |   |
| Write-off through provision for bad debt account (B/S) | R39 853 188 |           |   |
| Total bad debt written-off                             | R45 014 538 |           |   |