



**eDumbe Local Municipality  
Annual Financial Statements  
for the year ended June 30, 2019**

## General Information

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<b>Legal form of entity</b>	Local Municipality KZN261
<b>Nature of business and principal activities</b>	The main purposes of the municipality is to engage in local governance activities, which include planning and promotion of integrated development planning, economic and environmental development and provision of services to the community. The municipality provides services such as electricity services, refuse removal, public safety services.
<b>Mayoral committee</b>	
Honourable Mayor	Cllr S.J Kunene
Deputy Mayor	Cllr N.D Ndlangamandla
Speaker	Cllr S.T Hlatshwayo
MPAC Chairperson	Cllr H.H Vilakazi
EXCO Members	Cllr N.D Sibiyi
List of Councillors	Cllr R.C Gevers Cllr JDvR Lourens Cllr J.B Mthethwa Cllr M.S Zulu Cllr B Shabalala Cllr D.F Sukazi Cllr N.D Mngomezulu Cllr D.D Maseko Cllr M.S.E Mbokazi Cllr D.P Masondo Cllr Z.P Mtetwa
<b>Grading of local authority</b>	3
<b>Finance Manager</b>	Mr S Sibiyi
<b>Accounting Officer</b>	Mr M.P Khathide
<b>Registered office</b>	PRIVATE BAG X308 10 Hoog Street PaulPietersburg 3180
<b>Business address</b>	10 Hoog Street PaulPietersburg 3180
<b>Postal address</b>	Private Bag X308 PaulPietersburg 3180
<b>Bankers</b>	FIRST NATIONAL BANK
<b>Auditors</b>	Auditor-General of South Africa

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

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SALGA	South African Local Government Association
VAT	Value Added Tax
NJMPF	Natal Joint Municipal Pension/Provident Funds
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
NRA	Normal Retirement Age
NPO	Non-profit Organisation
KZN COGTA	The KwaZulu-Natal Department of Cooperative Governance and Traditional Affairs
COGTA	The Department of Cooperative Governance and Traditional Affairs
SASSETA	Safety and Security Sector Education and Training Authority
MOA	Memorandum of Agreement
MEC	Member of the Executive Council
UIF	Unemployment Insurance Fund
MIG	Municipal Infrastructure Grant (Previously CMIP)
PFMA	Public Finance Management Act
GEDF	Government Employees Pension Fund

## Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

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

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

The annual financial statements set out on pages 4 to 76, which have been prepared on the going concern basis, were approved on August 31, 2019 and were signed on its behalf by Accounting Officer:



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Accounting Officer  
Mr M. P. Khathide

## Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	21	27,405,869	22,460,088
Rental of facilities and equipment	22	1,175,814	1,410,598
Interest received	25	1,183,534	745,673
Licences and permits		843,218	1,114,396
Other income	24	580,452	1,044,719
<b>Total revenue from exchange transactions</b>		<b>31,188,887</b>	<b>26,775,474</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	26	19,214,143	18,273,978
Property rates - Interest	26	7,573,866	-
Fines	28	2,057,700	1,789,900
<b>Transfer revenue</b>			
Government grants & subsidies	27	125,388,001	107,555,029
<b>Total revenue from non-exchange transactions</b>		<b>154,233,710</b>	<b>127,618,907</b>
<b>Total revenue</b>	20	<b>185,422,597</b>	<b>154,394,381</b>
<b>Expenditure</b>			
Employee related costs	29	(48,838,147)	(48,405,499)
Remuneration of councillors	30	(5,973,203)	(4,943,341)
Audit Fees	38	(1,148,698)	(1,130,904)
Depreciation and amortisation	31	(12,370,908)	(12,305,322)
Impairment loss		(6,769,441)	(2,046,923)
Finance costs	32	(2,304,524)	(1,570,832)
Lease rentals on operating lease	39	(305,989)	(1,131,566)
Debt Impairment	33	(12,105,773)	(12,309,468)
Operational cost	37	(7,481,893)	(6,307,796)
Bulk purchases	34	(22,142,906)	(19,301,014)
Contracted services	35	(18,207,222)	(10,454,485)
Consumables	36	(470,660)	(227,042)
<b>Total expenditure</b>		<b>(138,119,364)</b>	<b>(120,134,192)</b>
Loss on disposal of assets and liabilities		-	(3,206,826)
Loss on payment to supplier		-	(278,302)
Fair value adjustments	3	5,603,214	-
Actuarial gains/losses	7	1,126,000	2,932,000
		<b>6,729,214</b>	<b>(553,128)</b>
<b>Surplus for the year</b>		<b>54,032,444</b>	<b>33,707,061</b>

\* See Note 44

(Registration number KZN 261)  
Trading as EDUMBE LOCAL MUNICIPALITY  
Annual Financial Statements for the year ended June 30, 2019

## Statement of Financial Position as at June 30, 2019

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Assets</b>			
Current Assets			
Inventories	8	95,884	122,324
Receivables from exchange transactions	9&12	13,096,788	5,223,658
Receivables from non-exchange transactions	10&12	18,502,140	14,302,852
VAT receivable	11	1,336,910	3,645,039
Cash and cash equivalents	13	3,070,476	10,038,309
		<b>36,102,198</b>	<b>33,332,182</b>
Non-Current Assets			
Investment property	3	16,600,000	10,996,786
Property, plant and equipment	4	313,813,799	285,626,292
Intangible assets	5	28,269	7,106
Heritage assets	6	147,149	147,149
		<b>330,589,217</b>	<b>296,777,333</b>
<b>Total Assets</b>		<b>366,691,415</b>	<b>330,109,515</b>
<b>Liabilities</b>			
Current Liabilities			
Payables from exchange transactions	18	22,612,323	43,391,367
Consumer deposits	19	237,774	237,774
Unspent conditional grants and receipts	15	1,040,057	6,042,612
Current Portion of Long Term Liability	17	61,800	56,350
		<b>23,951,954</b>	<b>49,728,103</b>
Non-Current Liabilities			
Employee benefit obligation	7	8,537,000	8,299,000
Provisions	16	9,295,172	8,503,107
		<b>17,832,172</b>	<b>16,802,107</b>
<b>Total Liabilities</b>		<b>41,784,126</b>	<b>66,530,210</b>
<b>Net Assets</b>		<b>324,907,289</b>	<b>263,579,305</b>
Reserves			
Housing Development Fund	14	100,348	100,348
Accumulated surplus		324,806,941	263,478,957
<b>Total Net Assets</b>		<b>324,907,289</b>	<b>263,579,305</b>

\* See Note 44

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## Statement of Changes in Net Assets

Figures in Rand	Other NDR	Accumulated surplus	Total net assets
<b>Balance at July 1, 2017</b>	<b>100,348</b>	<b>227,504,973</b>	<b>227,605,321</b>
Changes in net assets			
Impairment losses on revalued capital assets		(6,177,306)	(6,177,306)
Reversal of impairment losses on revalued capital assets		1,950,434	1,950,434
Change in accumulated surplus		6,493,795	6,493,795
Net income (losses) recognised directly in net assets		2,266,923	2,266,923
Surplus for the year		33,707,061	33,707,061
Total recognised income and expenses for the year		35,973,984	35,973,984
Total changes		35,973,984	35,973,984
<b>Restated* Balance at July 1, 2018</b>	<b>100,348</b>	<b>263,478,957</b>	<b>263,579,305</b>
Changes in net assets			
Surplus for the year		54,032,446	54,032,446
Other adjustments		7,295,538	7,295,538
Total changes		61,327,984	61,327,984
<b>Balance at June 30, 2019</b>	<b>100,348</b>	<b>324,806,941</b>	<b>324,907,289</b>

Note(s)

\* See Note 44

(Registration number KZN 261)  
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## Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		65,580,276	45,190,304
Grants		125,388,001	110,148,845
Interest income		1,183,534	745,673
		<u>192,151,811</u>	<u>156,084,822</u>
<b>Payments</b>			
Employee costs		(48,836,147)	(46,235,166)
Suppliers		(102,825,001)	(44,698,043)
Finance costs		(911,164)	(911,163)
Remuneration for Councillors		(5,973,203)	(4,943,341)
		<u>(158,545,515)</u>	<u>(96,787,713)</u>
<b>Net cash flows from operating activities</b>	40	<b><u>33,606,296</u></b>	<b><u>59,297,109</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(40,553,556)	(49,823,869)
Purchase of other intangible assets	5	(26,023)	-
<b>Net cash flows from investing activities</b>		<b><u>(40,579,579)</u></b>	<b><u>(49,823,869)</u></b>
<b>Cash flows from financing activities</b>			
Movement in Current Portion of long term liability		5,450	(112)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b><u>(6,967,833)</u></b>	<b><u>9,473,128</u></b>
Cash and cash equivalents at the beginning of the year		10,038,309	565,181
<b>Cash and cash equivalents at the end of the year</b>	13	<b><u>3,070,476</u></b>	<b><u>10,038,309</u></b>

\* See Note 44

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual 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	24,903,243	3,000,000	<b>27,903,243</b>	27,405,869	<b>(497,374)</b>	
Rental of facilities and equipment	1,586,000	(130,000)	<b>1,456,000</b>	1,175,814	<b>(280,186)</b>	
Interest received (trading)	480,000	520,000	<b>1,000,000</b>	1,183,534	<b>183,534</b>	
Licences and permits	954,000	-	<b>954,000</b>	843,218	<b>(110,782)</b>	Note 54.1
Other income	546,000	126,000	<b>672,000</b>	580,452	<b>(91,548)</b>	Note 54.2
<b>Total revenue from exchange transactions</b>	<b>28,469,243</b>	<b>3,516,000</b>	<b>31,985,243</b>	<b>31,188,887</b>	<b>(796,356)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	20,313,000	-	<b>20,313,000</b>	19,214,143	<b>(1,098,857)</b>	
Property rates - Interest	-	-	-	7,573,866	<b>7,573,866</b>	Note 54.3
Fines	4,758,000	(1,758,000)	<b>3,000,000</b>	2,057,700	<b>(942,300)</b>	Note 54.4
<b>Transfer revenue</b>						
Government grants & subsidies	72,621,000	6,461,000	<b>79,082,000</b>	125,388,001	<b>46,306,001</b>	Note 54.5
<b>Total revenue from non-exchange transactions</b>	<b>97,692,000</b>	<b>4,703,000</b>	<b>102,395,000</b>	<b>154,233,710</b>	<b>51,838,710</b>	
<b>Total revenue</b>	<b>126,161,243</b>	<b>8,219,000</b>	<b>134,380,243</b>	<b>185,422,597</b>	<b>51,042,354</b>	
<b>Expenditure</b>						
Personnel	(50,248,000)	-	<b>(50,248,000)</b>	(48,838,147)	<b>1,409,853</b>	
Remuneration of councillors	(5,460,000)	(431,000)	<b>(5,891,000)</b>	(5,973,203)	<b>(82,203)</b>	
Administration	(800,000)	-	<b>(800,000)</b>	-	<b>800,000</b>	
Audit fees	(1,300,000)	-	<b>(1,300,000)</b>	(1,148,698)	<b>151,302</b>	
Depreciation and amortisation	(7,254,300)	(2,746,000)	<b>(10,000,300)</b>	(12,370,908)	<b>(2,370,608)</b>	Note 54.6
Impairment loss/ Reversal of impairments	(2,400,000)	-	<b>(2,400,000)</b>	(6,769,441)	<b>(4,369,441)</b>	
Finance costs	(1,090,700)	-	<b>(1,090,700)</b>	(2,304,524)	<b>(1,213,824)</b>	Note 54.7
Lease rentals on operating lease	(450,000)	-	<b>(450,000)</b>	(305,989)	<b>144,011</b>	Note 54.8
Debt Impairment	(10,907,000)	(93,000)	<b>(11,000,000)</b>	(12,105,773)	<b>(1,105,773)</b>	Note 54.9
Collection costs	(8,000,000)	-	<b>(8,000,000)</b>	(7,481,894)	<b>518,106</b>	
Bulk purchases	(18,163,180)	(2,308,680)	<b>(20,471,860)</b>	(22,142,906)	<b>(1,671,046)</b>	
Contracted Services	(19,813,349)	-	<b>(19,813,349)</b>	(18,207,222)	<b>1,606,127</b>	
Consumables	(120,000)	-	<b>(120,000)</b>	(470,660)	<b>(350,660)</b>	Note 54.10
<b>Total expenditure</b>	<b>(126,006,529)</b>	<b>(5,578,680)</b>	<b>(131,585,209)</b>	<b>(138,119,365)</b>	<b>(6,534,156)</b>	
<b>Operating surplus</b>	<b>154,714</b>	<b>2,640,320</b>	<b>2,795,034</b>	<b>47,303,232</b>	<b>44,508,198</b>	
Fair value adjustments	-	-	-	5,603,214	<b>5,603,214</b>	
Actuarial gains/losses	(1,120,000)	-	<b>(1,120,000)</b>	1,126,000	<b>2,246,000</b>	Note 54.11
Inventories losses/write-downs	(100,000)	(20,000)	<b>(120,000)</b>	-	<b>120,000</b>	
<b>Surplus before taxation</b>	<b>(1,065,286)</b>	<b>2,620,320</b>	<b>1,555,034</b>	<b>54,032,446</b>	<b>52,477,412</b>	

(Registration number KZN 261)  
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## 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>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>(1,065,286)</b>	<b>2,620,320</b>	<b>1,555,034</b>	<b>54,032,446</b>	<b>52,477,412</b>	

## 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
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Figures in Rand

### Statement of Financial Position

#### Assets

##### Current Assets

Inventories	136,000	-	136,000	95,884	(40,116)	Note 54.12
Receivables from exchange transactions	-	-	-	13,096,788	13,096,788	Note 54.13
Receivables from non-exchange transactions	57,692,000	-	57,692,000	18,502,140	(39,189,860)	Note 54.14
VAT receivable	3,645,039	-	3,645,039	1,336,910	(2,308,129)	Note 54.15
Cash and cash equivalents	10,038,309	-	10,038,309	3,070,476	(6,967,833)	
	<b>71,511,348</b>	-	<b>71,511,348</b>	<b>36,102,198</b>	<b>(35,409,150)</b>	

##### Non-Current Assets

Investment property	10,996,786	-	10,996,786	16,600,000	5,603,214	Note 54.16
Property, plant and equipment	316,184,267	-	316,184,267	313,813,799	(2,370,468)	Note 54.17
Intangible assets	11,067	-	11,067	28,269	17,202	Note 54.18
Heritage assets	147,149	-	147,149	147,149	-	Note 54.19
	<b>327,339,269</b>	-	<b>327,339,269</b>	<b>330,589,217</b>	<b>3,249,948</b>	
<b>Total Assets</b>	<b>398,850,617</b>	-	<b>398,850,617</b>	<b>366,691,415</b>	<b>(32,159,202)</b>	

#### Liabilities

##### Current Liabilities

Payables from exchange transactions	40,673,000	-	40,673,000	22,612,325	(18,060,675)	Note 54.20
Consumer deposits	237,000	-	237,000	237,774	774	Note 54.21
Unspent conditional grants and receipts	(6,042,612)	-	(6,042,612)	1,040,057	7,082,669	
Other short-term liability	61,800	-	61,800	61,800	-	
	<b>34,929,188</b>	-	<b>34,929,188</b>	<b>23,951,956</b>	<b>(10,977,232)</b>	

##### Non-Current Liabilities

Employee benefit obligation	10,644,000	-	10,644,000	8,537,000	(2,107,000)	
Provisions	180,000	-	180,000	9,295,172	9,115,172	
	<b>10,824,000</b>	-	<b>10,824,000</b>	<b>17,832,172</b>	<b>7,008,172</b>	
<b>Total Liabilities</b>	<b>45,753,188</b>	-	<b>45,753,188</b>	<b>41,784,128</b>	<b>(3,969,060)</b>	
<b>Net Assets</b>	<b>353,097,429</b>	-	<b>353,097,429</b>	<b>324,907,287</b>	<b>(28,190,142)</b>	

#### Net Assets

##### Net Assets Attributable to Owners of Controlling Entity

##### Reserves

Other NDR	100,348	-	100,348	100,348	-	
Accumulated surplus	365,241,512	(281,693,000)	83,548,512	324,806,939	241,258,427	
<b>Total Net Assets</b>	<b>365,341,860</b>	<b>(281,693,000)</b>	<b>83,648,860</b>	<b>324,907,287</b>	<b>241,258,427</b>	

## 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>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Sale of goods and services	65,435,980	-	<b>65,435,980</b>	65,580,276	<b>144,296</b>	
Grants	125,384,001	-	<b>125,384,001</b>	125,388,001	<b>4,000</b>	
Interest income	1,183,534	-	<b>1,183,534</b>	1,183,534	-	
	<b>192,003,515</b>	-	<b>192,003,515</b>	<b>192,151,811</b>	<b>148,296</b>	
<b>Payments</b>						
Employee costs	(49,950,335)	-	<b>(49,950,335)</b>	(48,836,147)	<b>1,114,188</b>	
Suppliers	(96,082,205)	-	<b>(96,082,205)</b>	(102,825,001)	<b>(6,742,796)</b>	
Finance costs	(911,164)	-	<b>(911,164)</b>	(911,164)	-	
Remuneration for Councillors	(5,622,951)	-	<b>(5,622,951)</b>	(5,973,203)	<b>(350,252)</b>	
	<b>(152,566,655)</b>	-	<b>(152,566,655)</b>	<b>(158,545,515)</b>	<b>(5,978,860)</b>	
<b>Net cash flows from operating activities</b>	<b>39,436,860</b>	-	<b>39,436,860</b>	<b>33,606,296</b>	<b>(5,830,564)</b>	
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment	(35,790,756)	-	<b>(35,790,756)</b>	(40,553,556)	<b>(4,762,800)</b>	
Purchase of other intangible assets	(26,023)	-	<b>(26,023)</b>	(26,023)	-	
<b>Net cash flows from investing activities</b>	<b>(35,816,779)</b>	-	<b>(35,816,779)</b>	<b>(40,579,579)</b>	<b>(4,762,800)</b>	
<b>Cash flows from financing activities</b>						
Movement in Current Portion of long term liability	5,450	-	<b>5,450</b>	5,450	-	
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>3,620,081</b>	-	<b>3,620,081</b>	<b>(6,967,833)</b>	<b>(32,666,727)</b>	
Cash and cash equivalents at the beginning of the year	-	-	-	10,038,309	<b>10,038,309</b>	
<b>Cash and cash equivalents at the end of the year</b>	<b>3,620,081</b>	-	<b>3,620,081</b>	<b>3,070,476</b>	<b>(31,228,213)</b>	

The accounting policies on pages 12 to 36 and the notes on pages 37 to 76 form an integral part of the annual financial statements.

## **Accounting Policies**

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### **1. Presentation of Annual Financial Statements**

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

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand. Accounting policies for material transactions, events or conditions not covered by the GRAP Standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (SA GAAP) including any interpretations of such Statements issued by the Accounting Practices Board.

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

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

#### **1.1 Presentation currency**

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

#### **1.2 Going concern assumption**

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

#### **1.3 Significant judgements and sources of estimation uncertainty**

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

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

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

##### **Impairment testing**

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

##### **Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

## Accounting Policies

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

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

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

#### Post retirement benefits

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

#### Effective interest rate

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

#### Allowance for doubtful debts

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

### 1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

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

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

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

The nature OR type of properties classified as held for strategic purposes are as follows:

## Accounting Policies

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### 1.4 Investment property (continued)

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 3).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note 3).

### 1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The cost of an item of property, plant and equipment acquired in exchange for a non-monetary asset or monetary assets or a combination of monetary and non-monetary assets is measured at its fair value. If the acquired item cannot be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

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

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

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

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

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

## Accounting Policies

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

Incomplete construction work is stated on historical cost. Depreciation only commences when the assets is available for use. Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

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

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

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

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

The carrying amount of items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal.

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

## Accounting Policies

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### 1.6 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

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Item	Depreciation method	Average useful life
Computer software, other	Straight line	3-5 years

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Intangible assets are derecognised:

- on disposal; or
  - when no future economic benefits or service potential are expected from its use or disposal.
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## Accounting Policies

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### 1.6 Intangible assets (continued)

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

### 1.7 Heritage assets

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

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

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

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

#### Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

### 1.8 Investment Property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for (i) use in the production or supply of goods or services or for, (ii) to meet service delivery objectives, or (iii) sale in the ordinary course of operations. At initial recognition, the municipality measures the investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property at no cost or for a nominal value), its cost is its fair value as at the date of acquisition.

Owner-occupied property is properly held for use in the production or supply of goods and services or for administration purposes. Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replacement part is derecognised.

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

### 1.9 Financial instruments

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

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

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

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

## Accounting Policies

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### 1.9 Financial instruments (continued)

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

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

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

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

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

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

A financial asset is:

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

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

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

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

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

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

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

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

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

## Accounting Policies

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### 1.9 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

#### Initial recognition

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

The entity recognises financial assets using trade date accounting.

## Accounting Policies

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### 1.9 Financial instruments (continued)

#### Initial measurement of financial assets and financial liabilities

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

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

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

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

### 1.10 Leases

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

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

#### Finance leases - lessor

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

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

#### Finance leases - lessee

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

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

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

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

#### Operating leases - lessor

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

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

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

## Accounting Policies

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### 1.10 Leases (continued)

#### 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.

### 1.11 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

### 1.12 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

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

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

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

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

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

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

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

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or

## Accounting Policies

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

- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

[Specify judgements made]

#### Identification

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

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

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

#### Value in use

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

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

#### Discount rate

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

#### Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

## Accounting Policies

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

#### Cash-generating units

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

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

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

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

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

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

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

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

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

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

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

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

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

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

## Accounting Policies

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

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

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

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

[Specify judgements made]

#### Identification

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

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

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

#### Value in use

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

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

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

### 1.14 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

### 1.15 Employee benefits

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

## Accounting Policies

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### 1.15 Employee benefits (continued)

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

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

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

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

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

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

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

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

#### Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

## Accounting Policies

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### 1.15 Employee benefits (continued)

#### Post-employment benefits

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

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

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

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

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

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

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

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

## Accounting Policies

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### 1.15 Employee benefits (continued)

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

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

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

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

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

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

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

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

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

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

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

The amount recognised as a defined benefit liability is the net total of the following amounts:

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

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

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

## Accounting Policies

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### 1.15 Employee benefits (continued)

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

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

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

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

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

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

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

## Accounting Policies

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### 1.15 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

Post-employment benefit obligations are measured on a basis that reflects:

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

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

### 1.16 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating surplus .

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

## Accounting Policies

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### 1.16 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 42.

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

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

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

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, a municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

## Accounting Policies

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### 1.16 Provisions and contingencies (continued)

#### Landfill Sites

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

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

### 1.17 Commitments

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

### 1.18 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners. An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Interest is recognised on a time proportion basis. The interest on arrears account are currently charged. Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered and the fee has been charged or licences and permits have been issued. Revenue for agency services is recognised on a monthly basis once the revenue collected on behalf of agents has been quantified and once the terms of the agency agreement have been complied with. Revenue from the sales of goods is recognised when the risk is passed to the consumer.

#### Measurement

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

#### Rendering of services

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

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

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

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

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

## Accounting Policies

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### 1.19 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

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

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

### Recognition

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

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

## Accounting Policies

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

#### Measurement

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

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

#### Fines

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

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

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

### 1.20 Investment income

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

### 1.21 Borrowing costs

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

Borrowing costs are recognised as an expense in the period in which they are incurred. Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use of sale.

### 1.22 Comparative figures

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

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

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

### 1.23 Unauthorised expenditure

Unauthorised expenditure means:

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

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

## Accounting Policies

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### 1.24 Fruitless and wasteful expenditure

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

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

### 1.25 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

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

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

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

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

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

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

### 1.26 Housing development fund

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

### 1.27 Budget information

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

## Accounting Policies

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### 1.27 Budget information (continued)

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

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

The approved budget covers the fiscal period from 7/1/2019 to 6/30/2020.

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

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

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

Comparative information is not required.

### 1.28 Related parties

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

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

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

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

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

### 1.29 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and

## Accounting Policies

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### 1.29 Events after reporting date (continued)

- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

### 1.30 Contracted services

#### Transitional provision for [State name]

Contracted Services are distinguish between Outsourced Services, Contractors and Professional and Special Services.

#### Outsourced Services

The municipality should have the capacity and expertise to carry out certain services, but for some reasons not utilising their own staff. The reasons might include temporary incapacity or the outsourcing of services to save costs. In evaluating the classification of outsourced services it should be established whether the services being procured could have been provided by the municipality itself. It could also be that the municipality ordinarily has the expertise to provide the service but temporarily could not do so or to save costs.

#### Consultants and Professional Services

Consulting services refer to specialist services and skills provided that are required for the achievement of a specific objective, with the aim of providing expert and professional advise on a time and material basis. It is unnecessary to maintain these skills in-house, since they are required on a once-off or temporary basis. Therefore a consultant is a professional person appointed by the department to provide technical and specialist advise or to assist with he design and implementation of specific projects/programs. The legal status of this person can be an individual a partnership or a corporation. The fact that a consultant is defined as a professional person implies that the consultant is professionally qualified. The provision of advise or service is in line with a contractual arrangement. Remuneration is usually based on an hourly fee or a fixed fee for a product/deliverable. This category consists of groups for "Business and Advisory Services", "Infrastructure and Planning", "Laboratory" and "Legal Service".

#### Contractors

Contractors are required to provide services that are not the core business of the municipality. It is normally not cost effective to maintain these skills within the department. Contractors include costs associated with the use of contracted individuals or businesses on projects or tasks. This does not include amounts payable to contractors in respect of provision of services such as cleaning and security even if a staff element can be identified.

### 1.31 Value Added Tax

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

### 1.32 Other accounting policy

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

Risks and exposure are disclosed as follows:

#### Credit Risk

- Each class of financial instrument is disclosed separately.
- Maximum exposure to credit risk not covered by collateral is specified.

## Notes to the Annual Financial Statements

Figures in Rand 2019 2018

### 2. New standards and interpretations

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

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2019 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 104 (amended): Financial Instruments	April 1, 2020	Unlikely there will be a material impact
• Guideline: Guideline on Accounting for Landfill Sites	April 1, 2020	Unlikely there will be a material impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	April 1, 2020	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements	April 1, 2020	Unlikely there will be a material impact
• GRAP 20: Related parties	April 1, 2019	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	April 1, 2019	Unlikely there will be a material impact
• GRAP 105: Transfers of functions between entities under common control	April 1, 2019	Unlikely there will be a material impact
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	April 1, 2019	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	April 1, 2019	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	April 1, 2019	Unlikely there will be a material impact

### 3. Investment property

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	16,600,000	-	16,600,000	10,996,786	-	10,996,786

#### Reconciliation of investment property - 2019

	Opening balance	Fair value adjustments	Total
Investment property	10,996,786	5,603,214	16,600,000

#### Reconciliation of investment property - 2018

	Opening balance	Total
Investment property	10,996,786	10,996,786

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

## Notes to the Annual Financial Statements

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Figures in Rand	2019	2018
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### 3. Investment property (continued)

#### Details of valuation

The effective date of the revaluations was Friday, June 28, 2019. Revaluations were performed by an independent valuer, Mr Alan Robert Stephenson, of Mills Fitchet Property Valuers. Mills Fitchet is not connected to the municipality and have recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use.

In the exceptional cases when the municipality has to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
  - the fact that the entity has disposed of investment property not carried at fair value,
  - the carrying amount of that investment property at the time of sale, and
  - the amount of gain or loss recognised.

## Notes to the Annual Financial Statements

Figures in Rand

### 4. Property, plant and equipment

	2019		2018	
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Cost / Valuation	Accumulated depreciation and accumulated impairment
Land	30,179,257	-	30,179,257	-
Buildings	53,962,887	(18,257,073)	35,705,814	(16,227,346)
Infrastructure	207,607,380	(41,598,380)	166,009,000	(35,900,353)
Community	97,957,221	(28,841,247)	69,115,974	(26,516,244)
Other property, plant and equipment	16,762,573	(3,958,819)	12,803,754	(1,645,528)
<b>Total</b>	<b>406,469,318</b>	<b>(92,655,519)</b>	<b>313,813,799</b>	<b>(80,289,471)</b>
			<b>365,915,763</b>	<b>285,626,292</b>

## Notes to the Annual Financial Statements

Figures in Rand

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

#### Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Additions through WIP	WIP transfers	Transfers Out	Depreciation	Total
Land	30,179,257	-	-	-	-	-	30,179,257
Buildings	37,735,541	-	-	-	-	(2,029,727)	35,705,814
Infrastructure	158,833,671	-	12,873,357	25,865,976	(25,865,976)	(5,698,028)	166,009,000
Community	48,571,511	-	22,869,466	19,720,087	(19,720,087)	(2,325,003)	69,115,974
Other property, plant and equipment	10,306,312	4,810,733	-	-	-	(2,313,291)	12,803,754
	<b>285,626,292</b>	<b>4,810,733</b>	<b>35,742,823</b>	<b>45,586,063</b>	<b>(45,586,063)</b>	<b>(12,366,049)</b>	<b>313,813,799</b>

#### Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Additions under construction	Disposals	Asset Under Construction Opening	Transfers	Prior year error	Other changes, movements	Depreciation	Impairment loss	Total
Land	30,179,257	-	-	-	-	-	-	-	-	-	30,179,257
Buildings	41,623,333	-	-	(1,447,060)	(275,471)	-	-	-	(2,165,261)	-	37,735,541
Infrastructure	117,777,292	-	38,722,657	(972,271)	13,079,189	(5,328,387)	1,950,434	783,182	(7,178,425)	-	158,833,671
Community	45,049,185	-	10,465,088	(787,495)	6,315,351	(10,189,617)	-	-	(2,281,001)	-	48,571,511
Other property, plant and equipment	10,364,747	636,124	-	-	-	-	-	(17,884)	(662,675)	(14,000)	10,306,312
	<b>244,993,814</b>	<b>636,124</b>	<b>49,187,745</b>	<b>(3,206,826)</b>	<b>19,119,069</b>	<b>(15,518,004)</b>	<b>1,950,434</b>	<b>765,298</b>	<b>(12,287,362)</b>	<b>(14,000)</b>	<b>285,626,292</b>

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 4. Property, plant and equipment (continued)

#### Discount benefit scheme

The land at eDumbe location was sub-divided into 769 (As per council resolution provided) land title deeds (Excluding church and business stands) and were disposed of to the eDumbe location citizens under the council resolution 93 of 2000 dated 29 August 2000 (Date of council resolution). The 769 items of land which should have been transferred to the citizens are currently still in the name of eDumbe municipality as per the deed office and register. However, the land belongs to different beneficiaries and is already in possession of the citizens.

#### Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Total
Opening balance	51,992,597	51,992,597
Additions/capital expenditure	35,742,823	35,742,823
Transferred to completed items	(45,586,063)	(45,586,063)
	<b>42,149,357</b>	<b>42,149,357</b>

#### Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Total
Opening balance	18,322,855	18,322,855
Additions/capital expenditure	49,187,745	49,187,745
Transferred to completed items	(15,518,003)	(15,518,003)
	<b>51,992,597</b>	<b>51,992,597</b>

#### Expenditure incurred to repair and maintain property, plant and equipment

#### Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Building	228,272	279,475
Equipment	1,656,102	719,987
Vehicles	546,848	-
	<b>2,431,222</b>	<b>999,462</b>

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

## Notes to the Annual Financial Statements

Figures in Rand

### 5. Intangible assets

	2019	2018
Cost / Valuation	232,961	206,938
Accumulated amortisation and accumulated impairment	(204,692)	(199,832)
Carrying value	28,269	7,106

Computer software, other

### Reconciliation of intangible assets - 2019

Opening balance	Additions	Amortisation	Total
7,106	26,023	(4,860)	28,269

Computer software, other

### Reconciliation of intangible assets - 2018

Opening balance	Amortisation	Total
11,067	(3,961)	7,106

Computer software, other

### 6. Heritage assets

	2019	2018
Cost / Valuation	147,149	147,149
Accumulated impairment losses	-	-
Carrying value	147,149	147,149

Municipal Mayoral Chain

### Reconciliation of heritage assets 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 6. Heritage assets (continued)

	Opening balance	Total
Municipal Mayoral Chain	147,149	147,149

### Reconciliation of heritage assets 2018

	Opening balance	Total
Municipal Mayoral Chain	147,149	147,149

### Heritage assets which fair values cannot be reliably measured

The following heritage asset cannot be reliably measured. Fair value cannot be determined reliably due to unavailability of market. The range of estimates within which fair value is highly likely to lie is R147,149 (2019) and R147,149 (2018)

### 7. Employee benefit obligations

#### Defined benefit plan

##### Post retirement benefit plan

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

An independent valuer carries out a statutory valuation of the NJMPF on a triennial basis and an interim valuation on an annual basis. The findings are extracts from the interim actuarial valuation prepared by ZAQ Consultants and Actuaries as at 30 June 2018.

##### Post Employee medical benefit

## Notes to the Annual Financial Statements

Figures in Rand 2019 2018

### 7. Employee benefit obligations (continued)

The amounts recognised in the statement of financial position are as follows:

Carrying value	2019	2018
Accrued Liability	6,063,000	7,523,000
Current Service Cost	551,000	569,000
Interest Cost	624,000	787,000
Benefits Paid	(78,000)	(65,000)
Actuarial Loss/(Gain)	(1,197,000)	(2,751,000)
	<b>5,963,000</b>	<b>6,063,000</b>

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

Financial Variable	Assumed Value 30-06-2019 (Current Valuation)	Assumed Value 30-06-2018 (Preceding Valuation)
Discount Rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and yield curves CPI+1%	Difference between nominal and yield curves CPI+1%
Medical Aid Contribution Inflation	Yield curve based**	Yield curve based**
Net Effective Discount Rate		
	-	-

Membership data	Male	Female	Total
Number of active employees	23	43	66
Subsidy weighted average	40	43	42
Subsidy weighted average past service	8	9	9
Number of spouse	7	6	13
<b>Average monthly salary payable during the retirement (R)</b>	<b>2,030</b>	<b>1,690</b>	<b>1,810</b>

Continuation members (Pensioners)	Male	Female	Total
Number of continuation members	-	2	2
Subsidy weighted average age	N/A	77.5	62.7
Average monthly subsidy (R)	N/A	2,710 R	2,710
	-	-	-

#### Subsidy Arrangements

The Municipality has agreed to subsidise the medical aid contributions of retired members in the following way:  
 All new pensioners (that are currently still in service) and their dependants will receive a 60% subsidy.  
 All existing continuation members (pensioners) and their dependants will continue to receive a 60% subsidy.

#### Mortality Rate

Average Retirement Age

(Registration number KZN 261)  
Trading as EDUMBE LOCAL MUNICIPALITY  
Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

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Figures in Rand	2019	2018
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### 7. Employee benefit obligations (continued)

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

#### Normal Retirement Age

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

#### Mortality Rates

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

#### Spouses and Dependents

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.

## Notes to the Annual Financial Statements

Figures in Rand 2019 2018

### 7. Employee benefit obligations (continued)

#### Decrements withdrawal

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 +	- %	- %
	-	-

#### Long Service Awards

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality. The said award comprises of a certain number of additional vacation leave days as prescribed on the Basic condition of employment. The effective date used for the purposes of the valuation was 30 June 2019.

The most recent actuarial valuations of plan assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2019 by ZAQ Consultants and Actuaries.

#### Membership data

	No. of active employees	Salary weighted average age (Yrs)	Weighted average past service (Yrs)
Male	98	44.50	11.73
Female	38	38.29	6.00
	<b>136</b>	<b>41.36</b>	<b>8.65</b>

#### Long Service Awards Liabilities

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

#### Formula used to calculate Total Long Service Benefit Award

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

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 7. Employee benefit obligations (continued)

#### Financial Variables

The assumptions have been made for these variables as follows:

Discount rate	Yield Curve Difference between nominal and real yield curve Equal to CPI + 1%	Yield Curve Difference between nominal and real yield curve Equal to CPI + 1%
CPI (Consumer Price Index)	Yield Curve Based ***	Yield Curve Based ***
Normal Salary Increase Rate		
Net Effective Discount Rate		
<b>Net expense recognised in the statement of financial performance</b>	<b>520 000</b>	<b>2 236 000</b>

The two most important financial variables used in our valuation are the discount rate and salary inflation.

#### Net expense recognised in the statement of financial performance

Current service cost	2,236,000	2,121,000
Past service cost	246,000	257,000
Interest cost	225,000	219,000
Actuarial (gains) losses	71,000	(181,000)
Settlement	(204,000)	(180,000)
	<b>2,574,000</b>	<b>2,236,000</b>

#### Average Retirement Age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for illhealth 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.

## Notes to the Annual Financial Statements

Figures in Rand 2019 2018

### 7. Employee benefit obligations (continued)

#### Withdrawal Decrements

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

Actual return on plan assets	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 +	- %	- %

#### Current Finance Costs

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

The memorandum account in respect of pensioners was 96% funded.

There was a deficit in respect of active members which is being met by the surcharge of 9.5% of pensionable salaries, this surcharge is payable for 8 years with effect from 1 July 2012.

The required contribution rate for the future service exceeded the contribution rate payable by 3.63% of pensionable salaries.

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

The memorandum account in respect of pensioners was fully funded.

There was a deficit in respect of active members and it is recommended that the surcharge of 7% be increased to 9.5% of pensionable salaries and that the repayment period be set at 8 years at which time the deficit is expected to be fully funded.

The required contribution rate for the future service exceeded the contribution rate payable by 3.63% of pensionable salaries.

#### Employee benefit obligation

Medical Aid Benefit Obligation	5,963,000	6,063,000
Long Services Award Benefit	2,574,000	2,236,000
	<b>8,537,000</b>	<b>8,299,000</b>

### 8. Inventories

Inventories	95,884	122,324
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### 9. Receivables from exchange transactions

Other debtors	1,765,811	-
Consumer debtors - Electricity	548,545	631,837
Consumer debtors - Refuse	10,782,432	4,591,821
	<b>13,096,788</b>	<b>5,223,658</b>

#### Trade and other receivables pledged as security

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

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 9. Receivables from exchange transactions (continued)

#### Credit quality of trade and other receivables

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

#### Trade receivables

##### Credit quality of consumer debtors

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

The Council has resolved to charge interest on outstanding debtor account balances at 30 June 2019. The municipality enforces its approved credit control policy to ensure the recovery of Consumer Debtors.

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

The municipality receives applications for services that it processes. Deposits are required to be paid for all electrical accounts opened. The management of the municipality is of the opinion that the carrying value of Consumer Debtors approximate their fair values.

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

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

#### Trade and other receivables impaired

As of June 30, 2019, trade and other receivables of R 78,059,867 (30 June 2018: R 77,600,832) were impaired and provided for.

The amount of the provision was R 78,059,867 as of June 30, 2019 (30 June 2018: R 77,600,832).

The ageing of the provision is as follows:

3 to 6 months	-	2,154,990
Over 6 months	78,059,867	75,445,842

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

Opening balance	77,600,832	71,795,357
Provision for impairment	459,035	5,805,475
<b>Total Provision at 30 June</b>	<b>78,059,867</b>	<b>77,600,832</b>

### 10. Receivables from non-exchange transactions

Fines	1,422,512	2,284,167
Council debt	42,811	-
Consumer debtors - Rates	17,036,817	12,018,685
	<b>18,502,140</b>	<b>14,302,852</b>

The municipality due to the challenges with associated with the properties which include the title deeds as well as ownership of properties, the municipality have resolved to implement the impairment for Property Rates and the municipality understands the provision of Tax Act with regards to the impairment of taxes.

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>10. Receivables from non-exchange transactions (continued)</b>		
<b>Receivables from non-exchange transactions past due but not impaired</b>		
Based on the past experience the municipality has taken a decision to impair 100% of its debts which are 90 days overdue with an exception of Business properties and State Owned which was not impaired at all (whole outstanding debt). The municipality has experienced the non-payment by consumers which has contributed to the cash flow problem. Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At June 30, 2019, R - (30 June 2018: R -) were past due but not impaired.		
<b>Receivables from non-exchange transactions impaired</b>		
The amount of the provision was R 31,145,965 as of June 30, 2019 (30 June 2018: R 21,036,373).		
The ageing of the provision is as follows:		
3 to 6 months	-	6,884,698
Over 6 months	31,145,965	15,990,672
<b>Reconciliation of provision for impairment of receivables from non-exchange transactions</b>		
Reconciliation of Rates Impairment		
Opening balance	21,036,374	14,532,382
Provision for impairment	10,109,591	6,503,992
<b>Total Provision at 30 June</b>	<b>31,145,965</b>	<b>21,036,374</b>
<b>Reconciliation of Rates</b>		
Rate debtors	48,182,782	33,055,058
Less: Impairment for rates	(31,145,965)	(21,036,373)
	<b>17,036,817</b>	<b>12,018,685</b>
<b>Reconciliation of traffic fines impairment</b>		
Opening balance	(3,657,618)	(1,610,695)
Provision for impairment	(6,769,440)	(2,046,923)
	<b>(10,427,058)</b>	<b>(3,657,618)</b>
<b>Reconciliation - Traffic Fines</b>		
Traffic Fine Debtors	11,849,571	5,941,784
Less: Impairment for traffic fines	(10,427,058)	(3,657,618)
	<b>1,422,513</b>	<b>2,284,166</b>
<b>11. VAT receivable</b>		
VAT	1,336,910	3,645,039
<b>Complete the note to include the following:</b>		
Input VAT	75,513,933	139,381,511
Output VAT	(17,756,194)	(31,823,142)
Vat Control	(56,420,829)	(103,913,330)
	<b>1,336,910</b>	<b>3,645,039</b>

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>12. Consumer debtors disclosure</b>		
<b>Gross balances</b>		
Consumer debtors - Rates	48,182,782	33,055,058
Consumer debtors - Electricity	2,384,283	4,004,720
Consumer debtors - Refuse	87,006,562	78,819,770
	<b>137,573,627</b>	<b>115,879,548</b>
<b>Less: Allowance for impairment</b>		
Consumer debtors - Rates	(31,145,965)	(21,036,373)
Consumer debtors - Electricity	(1,835,738)	(3,372,883)
Consumer debtors - Refuse	(76,224,130)	(74,227,949)
	<b>(109,205,833)</b>	<b>(98,637,205)</b>
<b>Net balance</b>		
Consumer debtors - Rates	17,036,817	12,018,685
Consumer debtors - Electricity	548,545	631,837
Consumer debtors - Refuse	10,782,432	4,591,821
	<b>28,367,794</b>	<b>17,242,343</b>
<b>Rates</b>		
Current (0 -30 days)	2,399,166	1,656,053
31 - 60 days	2,735,958	1,888,527
61 - 90 days	1,634,305	1,128,099
91 - 120 days	983,393	678,799
> 365 days	9,283,995	6,667,207
	<b>17,036,817</b>	<b>12,018,685</b>
<b>Electricity</b>		
Current (0 -30 days)	311,780	311,903
31 - 60 days	122,350	177,350
61 - 90 days	36,210	86,464
91 - 120 days	60,334	22,450
121 - 365 days	17,871	33,670
	<b>548,545</b>	<b>631,837</b>
<b>Refuse</b>		
Current (0 -30 days)	6,692,413	2,850,040
31 - 60 days	3,798,717	1,617,727
121 - 365 days	291,302	124,054
	<b>10,782,432</b>	<b>4,591,821</b>

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>12. Consumer debtors disclosure (continued)</b>		
<b>Summary of debtors by customer classification (Exchanged and Non-Exchanged Transactions)</b>		
<b>Consumers</b>		
Current (0 -30 days)	4,065,970	4,870,177
31 - 60 days	3,877,074	2,053,688
61 - 90 days	3,615,788	1,445,454
91 - 120 days	3,536,328	1,464,454
> 365 days	122,478,467	106,045,775
	<u>137,573,627</u>	<u>115,879,548</u>
Less: Allowance for impairment	(109,205,833)	(98,637,205)
	<b><u>28,367,794</u></b>	<b><u>17,242,343</u></b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	1,350,540	2,048,389
31 - 60 days	377,954	1,096,218
61 - 90 days	280,923	382,279
91 - 120 days	150,549	298,952
121 - 365 days	65,223	-
> 365 days	6,947,706	14,683,042
	<u>9,172,895</u>	<u>18,508,880</u>
<b>National and provincial government</b>		
Current (0 -30 days)	1,265,362	145,332
31 - 60 days	578,314	692,629
61 - 90 days	571,370	240,691
91 - 120 days	326,524	150,875
121 - 365 days	212,713	-
> 365 days	12,703,594	10,709,238
	<u>15,657,877</u>	<u>11,938,765</u>
<b>13. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	81	81
Bank balances	3,070,395	10,038,228
	<b><u>3,070,476</u></b>	<b><u>10,038,309</u></b>

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## Notes to the Annual Financial Statements

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

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2019	June 30, 2018	June 30, 2017
FNB Primary Account	1,431,110	2,797,358	14,264	1,175,120	2,797,358	14,264
Grinrod Bank Investment	16,761	15,728	14,824	16,761	15,728	14,824
FNB Call Account - 622196848746	124,847	120,622	2,630	124,847	120,622	2,630
FNB Call Account - 61328003233	1,207,035	1,599,859	533,377	1,207,035	1,599,859	533,377
FNB Call Account - 62033660376	104,980	2,261,903	-	104,980	2,261,903	-
FNB Call Account - 62421843807	441,650	3,242,759	-	441,650	3,242,759	-
<b>Total</b>	<b>3,326,383</b>	<b>10,038,229</b>	<b>565,095</b>	<b>3,070,393</b>	<b>10,038,229</b>	<b>565,095</b>

### 14. Housing development fund

Non-distributable reserve 100,348      100,348

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

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

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

### 15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Arts and Culture Grant	580,611	434,004
KZN Cogta Massification Grant	-	3,000,000
KZN COGTA Wall-to-Wall Grant	-	21,356
COGTA - Small Town Rehabilitation	-	3,000,000
COGTA - Massification Grant	-	23,361
Extended Public Works Programme Grant	-	62,757
Municipal Infrastructure Grant	-	(29,452)
Integrated National Electrification Programme	-	(519,414)
Development planning	-	50,000
Sports and Recreation Infrastructure	445,446	-
Sports and Recreation maintenance	14,000	-
	<b>1,040,057</b>	<b>6,042,612</b>

### Movement during the year

Balance at the beginning of the year	6,042,612	1,458,403
Additions during the year	54,545,688	4,584,209
Income recognition during the year	(59,548,243)	-
	<b>1,040,057</b>	<b>6,042,612</b>

## Notes to the Annual Financial Statements

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

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

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 27 for reconciliation of grants from National/Provincial Government.

### 16. Provisions

#### Reconciliation of provisions - 2019

	Opening Balance	Additions	Total
Environmental rehabilitation	8,503,107	792,065	9,295,172

#### Reconciliation of provisions - 2018

	Opening Balance	Additions	Total
Environmental rehabilitation	7,778,537	724,570	8,503,107

#### Environmental rehabilitation provision

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

At 30 June 2019 the municipality will incur estimated rehabilitation costs of R9 295 173 (2018: R8 503 108) to restore the new landfill site at the end of its useful life, estimated to be 13 years. The amount of rehabilitation is dependent on future costs, technology, inflation and site consumption. The landfill provision represents management's best estimate of the Municipality's liability. The municipality currently has two landfill sites, the old landfill site is situated near Esikhaleni while the new landfill site is situated by the Coal Siding. The municipality has not utilised the old site as a landfill site since January 2014 and the current status of the old landfill sites reflects that there are no traces of a landfill site. Therefore, the old landfill site does not acquire any provision for closure. The landfill site conditional assessment for both sites was conducted by Ducharme Consulting.

The new landfill site is expected to be fully operational until 30 June 2026 and it is assumed that the rehabilitation will only take place thereafter. The calculation of the provision amount for the new landfill site was done in 2017/2018 financial year and the report has been issued to the municipality by Ducharme Consulting. The report was concluded and signed on 25 August 2018.

### 17. Current Portion of Long Term Liability

Employee benefits	61,800	56,350
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### 18. Payables from exchange transactions

Other accrued expenses	1,297,551	3,727,052
Trade Creditors and Accruals	12,495,729	33,754,614
Other creditors	-	3
Leave Provision/ Accruals	3,531,120	2,768,522
Bonus Provision/ Accruals	1,210,915	1,130,182
Payment received in advance - contract process	495,131	167,142
Retention	3,544,645	1,843,852
SDL suspense	37,232	-
	<b>22,612,323</b>	<b>43,391,367</b>

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 18. Payables from exchange transactions (continued)

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

The municipality has financial risk policies in place to ensure that all payables are paid within the credit timeframe. Payments received in advance is due to payments received for hall hire and prepaid electricity. Payments received in advance are consumer debtors' accounts paid in advance.

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

### 19. Consumer deposits

Electricity	237,774	237,774
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Consumer deposits are paid by consumers on application for new electricity connections. The deposits are repaid when the electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account. No interest is paid on Consumer deposits held.

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

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

### 20. Revenue

Service charges	27,405,869	22,460,088
Rental of facilities and equipment	1,175,814	1,410,598
Interest received	1,183,534	745,673
Licences and permits	843,218	1,114,396
Other income	580,452	1,044,719
Property rates	19,214,143	18,273,978
Property rates - penalties imposed	7,573,866	-
Fines	2,057,700	1,789,900
Government grants & subsidies	125,388,001	107,555,029
	<b>185,422,597</b>	<b>154,394,381</b>

#### The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	27,405,869	22,460,088
Rental of facilities and equipment	1,175,814	1,410,598
Interest received	1,183,534	745,673
Licences and permits	843,218	1,114,396
Other income	580,452	1,044,719
	<b>31,188,887</b>	<b>26,775,474</b>

## Notes to the Annual Financial Statements

Figures in Rand 2019 2018

### 20. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:

<b>Taxation revenue</b>		
Property rates	19,214,143	18,273,978
Property rates - penalties imposed	7,573,866	-
Fines	2,057,700	1,789,900
<b>Transfer revenue</b>		
Government grants & subsidies	125,388,001	107,555,029
	<b>154,233,710</b>	<b>127,618,907</b>

### 21. Service charges

Service charges - Electricity meters	12,475,455	10,573,465
Service Charges - Prepaid electricity	7,652,033	5,857,806
Refuse removal	7,278,381	6,028,817
	<b>27,405,869</b>	<b>22,460,088</b>

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

### 22. Rental of facilities and equipment

#### Facilities and equipment

Rental of facilities	-	47,597
Rental income - Plantation	1,175,814	1,363,001
	<b>1,175,814</b>	<b>1,410,598</b>

Included in the above rentals are operating lease rentals at straight-lined amounts of R 1,175,814 (2018: R 1,410,598).

### 23. Other revenue

Other income	580,452	1,044,719
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### 24. Other income

Burial Fees	28,018	25,664
Tender fees	236,280	116,209
Connection fees/ Prepaid Meter Bases	20,394	7,419
Rates Clearance Certificate	7,412	4,757
Building and Structures fees	21,099	22,281
Insurance Received	16,741	-
Prepaid Meter Box	-	32,514
Hall Hire	62,077	77,727
Public service	(97)	-
Library income	-	636,124
Other income	-	122,024
Staff renting	62,173	-
Recovery	126,355	-
	<b>580,452</b>	<b>1,044,719</b>

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

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## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 25. Interest received

#### Interest revenue

Interest on investments	809,797	470,148
Interest on debit balance	373,737	275,525
	<b>1,183,534</b>	<b>745,673</b>

### 26. Property rates

#### Rates received

Residential	3,354,393	2,187,433
Commercial	5,804,877	4,862,632
State	9,709,000	9,315,211
Multipurpose	223,623	262,259
Small holdings and farms	5,584	5,296
Property rates	452,879	395,603
Agricultural	968,454	873,410
Vacant land	799,141	806,697
Less: Income forgone	(2,103,808)	(434,563)
	<b>19,214,143</b>	<b>18,273,978</b>
Property rates - Interest	7,573,866	-
	<b>26,788,009</b>	<b>18,273,978</b>

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

#### Valuations

Residential	439,650,000	439,650,000
Commercial	143,490,000	143,490,000
State	204,891,000	204,891,000
Municipal	25,545,000	25,545,000
Agricultural	492,575,000	492,575,000
Place of Worship (Church)	15,375,000	15,375,000
Vacant land	41,250,000	41,250,000
State owned land	120,000	120,000
	<b>1,362,896,000</b>	<b>1,362,896,000</b>

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. Interest on outstanding balance is not charged as per council resolution.

Rebate is granted to businesses at 15%, vacant land at 10%. The properties under category Church, Municipal Properties, Communal land and NPO are 100% exempted in line with rates policy.

## Notes to the Annual Financial Statements

Figures in Rand 2019      2018

### 27. Government grants and subsidies

#### Operating grants

Equitable share	65,835,757	59,913,000
Finance Management Grant	1,970,000	1,900,000
Extended Public Works Programme Grant	1,103,000	1,326,243
Subsidy Arts and Culture	2,623,393	1,119,038
KZN COGTA - Wall to Wall Grant	629,936	978,645
COGTA Truck	3,000,000	-
Small Town Rehabilitation - Market stalls	2,000,000	-
COGTA Massification	23,361	-
SASSETA	50,000	-
Sport and recreation	36,000	-
Spatial Development Framework	1,000,000	-
	<b>78,271,447</b>	<b>65,236,926</b>

#### Capital grants

Municipal Infrastructure Grant	26,762,000	17,827,340
KZN Cogta Massification Grant	3,000,000	-
Government grant (capital) 3	4,054,554	-
Integrated National Electrification Program	13,300,000	24,490,763
	<b>47,116,554</b>	<b>42,318,103</b>
	<b>125,388,001</b>	<b>107,555,029</b>

#### Equitable Share

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

Total amount received by the municipality for the financial year under review for Equitable Share was R 65,835,757 (2018: R 59,913,000), and the grant was utilised as per the intended purpose. There was an amount which was held by National Treasury of R528 000 for 2018/19 financial period.

#### Municipal Infrastructure Grant

Balance unspent at beginning of year	(29,452)	(494,113)
Current-year receipts	26,762,000	18,292,000
Conditions met - transferred to revenue	(26,732,548)	(17,827,339)
	<b>-</b>	<b>(29,452)</b>

The municipality spent 100% of the MIG allocation for 2018/19 financial year and the over-spending on the grant relates to the retentions withheld for the projects.

#### Finance Management Grant

Current-year receipts	1,970,000	1,900,000
Conditions met - transferred to revenue	(1,970,000)	(1,900,000)
	<b>-</b>	<b>-</b>

The municipality has spent 100% on the Finance Management grant.

#### Extended Public Works Programme Grant

Balance unspent at beginning of year	62,757	-
Current-year receipts	1,103,000	1,389,000

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>27. Government grants and subsidies (continued)</b>		
Conditions met - transferred to revenue	(1,103,000)	(1,326,243)
Other movement	(62,757)	-
	<b>-</b>	<b>62,757</b>

The allocation for 2017/18 was received and the municipality had unspent of R62 757 of the allocation. The balance of unspent grant was withheld on Equitable Share, which is reflected by other movement on the reconciliation.

### Subsidy Arts and Culture

Balance unspent at beginning of year	434,004	435,042
Current-year receipts	2,770,000	1,118,000
Conditions met - transferred to revenue	(2,623,393)	(1,119,038)
	<b>580,611</b>	<b>434,004</b>

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

Arts and Culture grant is used by libraries for the operations. The library services failed to implement their plans 100% which lead to the unspent grant.

### Integrated National Electrification Program

Balance unspent at beginning of year	(519,413)	(28,650)
Current-year receipts	13,300,000	24,000,000
Conditions met - transferred to revenue	(12,780,587)	(24,490,763)
	<b>-</b>	<b>(519,413)</b>

The grant was overspent with an amount R 519 413 during the 2017/18 Financial Year.

The grant was 100% spent in 2018/19 financial period

### COGTA Massification Grant

Balance unspent at beginning of year	23,361	23,361
Conditions met - transferred to revenue	(23,361)	-
	<b>-</b>	<b>23,361</b>

The electrification of Nkembeni Phase 1 (Mbizeni Area) has been completed (100%). Condition has been met. The municipality received an amount of R200 000 for the grant and the condition was 100% met as per the MOA with the department.

### KZN COGTA Wall to Wall

Balance unspent at beginning of year	21,356	1,000,000
Conditions met - transferred to revenue	(21,356)	(978,644)
	<b>-</b>	<b>21,356</b>

### COGTA Truck

Balance unspent at beginning of year	3,000,000	3,000,000
Conditions met - transferred to revenue	(3,000,000)	-
	<b>-</b>	<b>3,000,000</b>

### COGTA Electrification

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>27. Government grants and subsidies (continued)</b>		
Balance unspent at beginning of year	3,000,000	3,000,000
Conditions met - transferred to revenue	(3,000,000)	-
	<b>-</b>	<b>3,000,000</b>
<b>Small Town Rehabilitation</b>		
Current-year receipts	2,000,000	-
Conditions met - transferred to revenue	(2,000,000)	-
	<b>-</b>	<b>-</b>
<b>SASSETA</b>		
Balance unspent at beginning of year	50,000	50,000
Conditions met - transferred to revenue	(50,000)	-
	<b>-</b>	<b>50,000</b>
Conditions still to be met - remain liabilities (see note 15).		
Provide explanations of conditions still to be met and other relevant information.		
<b>Sports and recreation infrastructure</b>		
Current-year receipts	4,500,000	-
Conditions met - transferred to revenue	(4,054,554)	-
	<b>445,446</b>	<b>-</b>
Conditions still to be met - remain liabilities (see note 15).		
<b>Sports and recreation</b>		
Current-year receipts	50,000	-
Conditions met - transferred to revenue	(36,000)	-
	<b>14,000</b>	<b>-</b>
Conditions still to be met - remain liabilities (see note 15).		
Provide explanations of conditions still to be met and other relevant information.		
<b>Spatial development framework</b>		
Current-year receipts	1,000,000	-
Conditions met - transferred to revenue	(1,000,000)	-
	<b>-</b>	<b>-</b>
<b>28. Fines</b>		
Traffic fines	2,057,700	1,789,900

The fines not collected as at 30 June 2019 was R 1 442 400 as per schedule of fines issued. Based on the past experience and looking at the current year's collection on fines, 12% of the total traffic fines debt was not impaired in 2018/19.

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>29. Employee related costs</b>		
Basic	33,392,072	33,473,902
Bonus	2,514,517	2,421,800
Medical aid - company contributions	1,763,751	2,079,891
UIF	234,830	244,562
Leave pay provision charge	1,015,803	734,510
Defined contribution plans	5,243,764	4,864,875
Long-service awards	683,946	1,623,197
Acting allowances	743,543	514,137
Car allowance	1,606,500	1,703,500
Housing benefits and allowances	118,489	21,748
SALGBC	16,930	14,182
Cellphone Allowance	288,000	291,543
Standby allowance	411,975	158,961
Housing allowance	804,027	258,691
	<b>48,838,147</b>	<b>48,405,499</b>
<b>Remuneration of Municipal Manager (M.P Khathide)</b>		
Annual Remuneration	556,439	270,906
Car Allowance	119,793	57,930
Contributions to UIF, Medical and Pension Funds	162,857	80,154
Cellphone Allowance	28,800	14,400
Housing Allowance	90,111	42,522
Remote allowance	38,071	18,060
	<b>996,071</b>	<b>483,972</b>
<b>Remuneration of Chief Finance Officer (S Mngwengwe) resigned 31 January 2018</b>		
Annual Remuneration	-	346,549
Car Allowance	-	75,348
Performance Bonuses	48,118	-
Contributions to UIF, Medical and Pension Funds	-	89,474
Cellphone Allowance	-	13,300
	<b>48,118</b>	<b>524,671</b>
<b>Remuneration of Director Infrastructure Services (S Cele)</b>		
Annual Remuneration	558,391	543,708
Car Allowance	98,144	96,000
Contributions to UIF, Medical and Pension Funds	164,612	158,472
Cellphone Allowance	22,800	22,800
Housing allowance	111,307	108,000
	<b>955,254</b>	<b>928,980</b>
<b>Remuneration of Director Community Services (V.B Mbatha)</b>		
Annual Remuneration	507,629	185,355
Car Allowance	58,039	52,000
Vehicle	143,828	-
Contributions to UIF, Medical and Pension Funds	1,802	-
Backpay	22,245	-
Cellphone Allowance	22,800	9,500
Housing allowance	194,591	71,570

(Registration number KZN 261)  
 Trading as EDUMBE LOCAL MUNICIPALITY  
 Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>29. Employee related costs (continued)</b>		
Remote allowance	34,742	12,355
	<b>985,676</b>	<b>330,780</b>

The contract for Director Community services started on 01 March 2018.

### Remuneration of Municipal Manager(T.V Mkhize)

Performance Bonuses	48,769	-
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### Remuneration of Municipal Manager (R.P Mnguni)

Annual Remuneration	-	254,107
Car Allowance	-	69,601
Contributions to UIF, Medical and Pension Funds	-	124,355
Cellphone allowance	-	16,800
Housing allowance	-	64,666
	-	<b>529,529</b>

The Municipal Manager, Mr R.P Mnguni resigned from his position on 31 December 2017 and Mr M.P Khathide was seconded by Co-operative Governance and Traditional Affairs to Act as the Municipal Manager as from 01 January 2018.

### Remuneration of Chief Financial Officer (N. Mngomezulu)

Annual Remuneration	195,365	-
Car Allowance	12,244	-
Cellphone	9,500	-
Contributions to UIF, Medical and Pension Funds	745	-
Cellphone	20,868	-
Other	37,490	-
Housing	48,841	-
	<b>325,053</b>	-

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>30. Remuneration of councillors</b>		
Honourable Mayor	883,833	758,012
Deputy Mayor	451,270	355,974
Mayoral Committee Members	337,654	316,666
Speaker	761,590	620,066
Councillors	3,185,522	2,599,406
MPAC Chairperson	353,334	293,217
	<b>5,973,203</b>	<b>4,943,341</b>
<p>The Mayor is full time and is provided with an office and secretarial support at the cost of the Council. The Mayor, Deputy Mayor and Speaker has use of a Council owned vehicle for official duties. The Mayor has two full time bodyguards and Deputy Mayor and Speaker have full time drivers each. The speaker of the Council is full time and is also provided with an office and secretarial support. The municipality have also provided MPAC chairperson with an office.</p>		
<b>Remuneration of Honourable Mayor (S.Kunene)</b>		
Annual Remuneration	568,509	568,509
Travel Allowance	189,503	189,503
Contributions to UIF, Medical and Pension Funds	104,953	104,226
Cellphone	20,868	20,868
	<b>883,833</b>	<b>883,106</b>
<b>Remuneration of Deputy Mayor (N. Ndlangamandla)</b>		
Annual Remuneration	254,122	251,330
Travel Allowance	83,777	83,777
Backpay	11,237	-
Contributions to UIF, Medical and Pension Funds	81,266	73,810
Cellphone	20,868	20,868
	<b>451,270</b>	<b>429,785</b>
<b>Remuneration of MPAC Chairperson (H. Vilakazi)</b>		
Annual Remuneration	222,356	219,913
Travel Allowance	73,304	73,304
Backpay	10,910	-
Contributions to UIF, Medical and Pension Funds	46,764	40,342
	<b>353,334</b>	<b>333,559</b>
<b>Remuneration of Executive Member (N. Sibiyi)</b>		
Annual Remuneration	238,244	235,626
Travel Allowance	78,542	78,542
Cellphone	20,868	20,868
	<b>337,654</b>	<b>335,036</b>
<b>Remuneration of Speaker (S.T Hlatshwayo)</b>		
Annual Remuneration	459,861	454,808
Backpay	19,809	-
Contributions to UIF, Medical and Pension Funds	109,638	94,472
Travel allowance	151,602	151,602
Cellphone	20,680	20,680
	<b>761,590</b>	<b>721,562</b>

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>31. Depreciation and amortisation</b>		
Property, plant and equipment	12,366,048	12,301,361
Intangible assets	4,860	3,961
	<b>12,370,908</b>	<b>12,305,322</b>
<b>32. Finance costs</b>		
Economic entities	792,065	724,571
Other interest paid	1,512,459	846,261
	<b>2,304,524</b>	<b>1,570,832</b>
Total finance costs is calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit.		
<b>33. Debt impairment</b>		
Debt impairment	12,105,773	12,309,468
<b>Provision for bad debt adjustment calculation</b>		
Opening debt provision	12,309,468	86,327,738
less: Closing debt provision	(203,695)	(98,637,206)
	<b>12,105,773</b>	<b>(12,309,468)</b>
This adjustment is due to align the previous years provision for bad debts with the one for current year under review.		
<b>34. Bulk and other purchases</b>		
Electricity - Eskom	22,142,906	19,301,014
<b>35. Contracted services</b>		
<b>Outsourced Services</b>		
Administrative and Support Staff	49,400	5,000
Burial Services	102,110	(390)
Business and Advisory	1,182,672	-
Clearing and Grass Cutting Services	1,204,890	1,586,098
Fire Services	4,764	-
Professional Staff	1,185,983	155,293
Refuse Removal	22,682	134,598
Security Services	4,928,371	4,037,840
Transport Services	541,902	-
<b>Consultants and Professional Services</b>		
Business and Advisory	2,042,467	1,084,566
Infrastructure and Planning	2,053,339	1,155,995
Legal Cost	1,192,882	1,264,851
<b>Contractors</b>		
Catering Services	1,231,545	31,172
Maintenance of Buildings and Facilities	228,272	279,475
Maintenance of Equipment	1,656,102	719,987
Maintenance of Unspecified Assets	579,841	-
	<b>18,207,222</b>	<b>10,454,485</b>

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>36. Consumables</b>		
Consumables	470,660	227,042
<b>37. Operational cost</b>		
Accommodation	777,476	320,189
Travel Allowance	579,526	378,382
Electricity - Eskom	268,023	-
Printing	458,983	-
Ward Committees	471,600	406,800
Publication	-	295,986
Bank charges	147,841	86,345
Courier charges	1,709	1,819
Uniforms	105,654	338,627
Wet Fuel	884,855	369,384
Prepaid electricity	154,941	153,931
Telephone	227,921	229,635
Insurance	703,166	-
Transport	-	174,135
Skills and Development Levy	384,167	410,884
Professional fees	1,179,673	1,554,203
Advertising	268,107	-
Data	-	55,202
Internet	109,656	-
SALGA Fee	516,785	-
Seating allowance	10,500	-
Other	231,308	1,532,274
	-	-
	<b>7,481,891</b>	<b>6,307,796</b>
<b>38. Auditors' remuneration</b>		
External Audit Fees - Auditor-General	1,148,698	1,130,904
<b>39. Operating lease</b>		
<p>Operating lease payments represent rentals payable by the municipality for the photocopiers. Leases are normally negotiated for an average term of three years. The municipality entered into a new lease for the photocopiers with Biztec from 2015/16 financial year. The municipality also entered to the lease agreement with Afrirent for the lease of vehicles from 2015/16 financial year for the period of three months.</p>		
<b>Operating lease as a lessee</b>		
Within One Year	305,989	1,131,566

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

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>39. Operating lease (continued)</b>		
<b>Operating Leases - as income</b>		
Within One Year	-	1,151,097
In Second to Fifth Year Inclusive	-	4,179,077
After Five Years	-	8,649,903
		<b>13,980,077</b>
<b>40. Cash generated from operations</b>		
Surplus	54,032,446	33,707,061
<b>Adjustments for:</b>		
Depreciation and amortisation	12,370,908	12,305,322
Gain on sale of assets and liabilities	-	3,206,826
Loss on payment to suppliers	-	278,302
Fair value adjustments	(5,603,214)	-
Impairment deficit	6,769,441	-
Debt impairment	12,105,773	12,309,468
Other non-cash item	7,295,534	(10,181,535)
Movements in retirement benefit assets and liabilities	238,000	(1,345,000)
Movements in provisions	792,065	724,571
<b>Changes in working capital:</b>		
Inventories	26,440	(16,671)
Receivables from exchange transactions	(14,642,571)	3,363,517
Consumer debtors	(12,105,773)	-
Other receivables from non-exchange transactions	(4,199,288)	(199,282)
Payables from exchange transactions	(20,779,039)	3,440,219
VAT	2,308,129	(2,879,898)
Unspent conditional grants and receipts	(5,002,555)	4,584,209
	<b>33,606,296</b>	<b>59,297,109</b>
<b>41. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• INEP Projects	1,786,780	1,510,399
• MIG	3,081,846	-
	<b>4,868,626</b>	<b>1,510,399</b>
<b>Total capital commitments</b>		
Already contracted for but not provided for	4,868,626	1,510,399
The committed expenditure relates to work-in-progress and future projects which will be constructed in various wards and will be financed by Municipal Infrastructure Grant and Integrated National Electrification Program and internally generated etc.		
<b>Total commitments</b>		
<b>Total commitments</b>		
Authorised capital expenditure	4,868,626	1,510,399
This committed expenditure relates to property and will be financed by grant funding from Department of Co-operative Governance and Traditional Affairs and Department of Energy irrespectively with other portion funded by funds internally generated.		

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>42. Contingencies</b>		
Litigation is in the process against the municipality relating to a dispute with a competitor who alleges that the municipality has infringed patents and is seeking damages. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the case should be resolved within the next two years.		
<b>Lime Distributors (Rehabilitation of Joubert Street)</b>		
Lime Distributors is suing the municipality for unpaid invoices for goods delivered in terms of Cession Agreement with Swatilelihle. Lime Distributors is suing the municipality for an amount of R223 258. The contingent liability includes legal cost for plaintiff of R100 000 and legal cost for municipality of R100 000	223,258	223,258
<b>Claim for damages - AMT Putini</b>		
Mr AMT Putini instituted proceedings in the bargaining council challenging his suspension by Council in 2010. The award was for the municipality to pay the claimant an amount of R480 305 excluding legal fees. The council has challenge the award and currently the council attorneys are dealing with the matter. Should the council be unsuccessful in defending the claim there is the possibility that the claim will be settled at R480 305 plus the estimated amount to settle the attorney of the Council of R150 000 and the claimants attorney fees estimated at R150 000.	480,305	480,305
<b>MSN Investments</b>		
The municipality has been sued by MSN Investments claiming that he was appointed by acting Municipal Manager verbally to continue working for the council for the finalisation of Annual Financial Statements. MSN Investment is claiming R78 906 for work performed. The legal cost estimated was R50 000.	78,906	78,906
<b>Ihlathi Transport CC</b>		
The municipality is sued by Ihlathi Transport CC for the services rendered to municipality. Ihlathi Transport cc is demanding the outstanding payment of R1.9 million from the municipality for services rendered. Ihlathi Transport has not issued summons but the matter has been referred to the court. The estimated legal fees is R100 000. Municipality is in the process of appointing a new attorney.	1,900,000	1,900,000
<b>Swatilelihle</b>		
Swatilelihle was appointed by municipality for the construction of Joubert Street in Paulpietersburg town. The company executed the work, and was paid for work that was done. They are claiming now that they did not make a profit due to some instruction on site by the municipality and other site issues and they are suing the municipality for R3.8 million. Swatilelihle is suing the municipality for R 3 800 448 for disputes of unpaid invoices arising from the contract. The contingent liability includes legal cost for plaintiff of R100 000 and legal cost for municipality R100 000.	3,800,000	3,800,000
<b>Natal Richard Bay Hire CC</b>		
Natal Richards Bay Hire is suing the municipality for R411 279 together with the interest for failing to pay the monies due in terms of the contract. The contingent liability includes the legal cost for plaintiff of R100 000 and the legal cost for municipality of R100 000.	411,279	411,279

### Bonakude Consulting vs. eDumbe Municipality

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>42. Contingencies (continued)</b>		
The Municipality received summons to appear in court. Bonakude Consulting applied for a court order in High court of South Africa KwaZulu Natal Division, Pietermaritzburg for the following:	100,000	-
(a) That the municipality was interdicted and restrained from finalising and awarding under the re-advertised contract number EDUMPRO 05/2016/17		
(b) That the municipality was directed, within five (5) days of the granting of that order to provide the applicant with:		
Written reasons for its decision to re-advertise the tender under contract EDUMPRO 05/2016/17.		
In summary, the Municipality issued Bonakude consulting firm with a letter of intention to award.		
Subsequent to the applicant accepting that award, the municipality then re-advertised the tender under EDUMPRO 05/2016/17 in circumstances where the respondent had neither, provided the applicant with any reasons as to why the award was set aside and the tender re-advertised.		
<b>PWC</b>		
Matter between PWC and Municipality, PWC suing municipality	-	1,754,440
<b>Other Contingent liabilities</b>		
<b>AfriForum vs. eDumbe Municipality</b>		
The Municipality was sued for not paying R14 884.81. AfriForum claimed at the time that they have repaired certain portion of the urban roads without the permission of the municipality and needed to be refunded of that money. The municipality took a decision to defend itself.	14,885	-
<b>Guarantee with Eskom</b>		
The municipality has a call account which has a portion of guarantee withheld by the bank for the Eskom license guarantee. The amount for the guarantee is:	530,000	530,000

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>43. Related parties</b>		
<b>Related party transactions</b>		
<b>T. Mdletshe (Employee of the municipality)</b>	<b>Transaction amount</b>	
Catering for 90 people REP Forum	2,500	-
<b>Duduzile Nhlengethwa (Employee of the municipality)</b>	<b>Transaction amount</b>	
Catering for SALGA game 122 people	10,980	-
<b>B.L Nkwanyana (Employee of the municipality)</b>	<b>Transaction amount</b>	
Councilors refreshments SALGA games	9,900	-
<b>Trade Payables</b>	<b>Transaction amount</b>	
Isulami Trading and Projects: For Grass Cutting and TLB hire	1,443,477	-
Balance 30 June 2019	6,992	1,488,277
Wife of the director of Isulami Trading is the employee of the municipality.		
<b>Siwangu Trading and Projects</b>	<b>Transaction amount</b>	
Grade 12 Learners prayer decoration	7,000	-
Director of the company is the employee of the municipality.		
<b>XB Donga Trading</b>	<b>Transaction amount</b>	
Purchase tools and Transportation of Grade 12 Learners for prayer.	42,682	-
Associated with the employee of the municipality.		
<b>Empire and isix other Projects</b>	<b>Transaction amount</b>	
Various supplies	45,650	-
Associated with the employee of the municipality.		
<b>44. Prior period errors</b>		
Municipality acquired services of an expert in revaluation of Landfil Site in 2018. There was change in estimate as per expert report that resulted in a change in net assets (Landfil site) as well the corresponding liability (Landfil Site provision). The effect of change in asset was processed and the corresponding liability was not increased. The prior period error is to bring the increase in provision liability into books.		
During the financial period in which the report was issued, the entry to recognised the assets was process the correctly, however the entry to process the liability was taken to Statement of Change in Net Assets.		
Swatelihle ceded some work to Lime Distributors and Lime Distributors sued municipality and the amount was duplicated on prior year financial statements. The amount was R3 800 448		
<b>Statement of financial position</b>		
Property, plant and equipment	-	1,950,433
Increase in provision of Landfil Site provision	-	(6,177,306)

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 45. Comparative figures reclassification

Certain comparative figures have been reclassified

The effects of the reclassification are as follows:

#### Statement of financial performance

	Previously reported	Restated
Bulk purchases	20,044,903	(19,301,014)
Operational cost	5,807,619	(6,307,796)
Inventory losses	(16,670)	-
Consumables	-	(227,042)
	<b>25,835,852</b>	<b>(25,835,852)</b>

### 46. Risk management

#### Financial risk management

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

#### Liquidity risk

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

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

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

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

#### Credit risk

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

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

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

Financial instrument	2019	2018
Cash and cash equivalent	3,078,836	10,038,309
Trade and other receivables	31,598,928	33,829,362
VAT receivables	1,336,910	3,645,039

#### Market risk

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 46. Risk management (continued)

#### 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.

The municipality analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the municipality calculates the impact on surplus and deficit of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

Occasionally the municipality also enters into fixed-to-floating interest rate swaps to hedge the fair value interest rate risk arising where it has borrowed at fixed rates in excess of the 60% target.

### 47. Going concern

We draw attention to the fact that at June 30, 2019, the municipality had an accumulated surplus of R 324,806,941 and that the municipality's total assets exceed its liabilities by R 324,907,289.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

### 48. Unauthorised expenditure

Opening balance as previously reported	53,764,357	45,873,924
<b>Opening balance as restated</b>	<b>53,764,357</b>	<b>45,873,924</b>
Add: Unauthorised Expenditure	11,163,555	7,890,433
Less: Amount written off - current	(13,300,000)	-
<b>Closing balance</b>	<b>51,627,912</b>	<b>53,764,357</b>

The amount of unauthorised expenditure is as a result of exceeding approved and adjusted budget. The amount also includes non-cash items.

### 49. Fruitless and wasteful expenditure

Opening balance as previously reported	7,160,053	5,960,630
<b>Opening balance as restated</b>	<b>7,160,053</b>	<b>5,960,630</b>
Add: Fruitless and wasteful expenditure current year	663,459	1,199,423
<b>Closing balance</b>	<b>7,823,512</b>	<b>7,160,053</b>

The fruitless and wasteful expenditure incurred during the year was for the interest raised by Eskom, SARS, Pension fund and other service providers for non payments. The cash flow challenges faced by the municipality was the root cause for failure to settle the debts within the prescribed period as per section 65 of the MFMA.

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>50. Irregular expenditure</b>		
Opening balance	71,514,029	69,818,137
Add: Irregular Expenditure - current year	5,794,572	1,695,892
<b>Opening balance as restated</b>	<b>77,308,601</b>	<b>71,514,029</b>
Less: Amounts written off	(42,393,362)	-
Less: Amounts recoverable - current	(83,465)	-
<b>Closing balance</b>	<b>34,831,774</b>	<b>71,514,029</b>
<b>51. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Opening balance	2,631,985	2,115,435
Current year subscription / fee	545,507	516,550
Amount paid - current year	(14,070)	-
	<b>3,163,422</b>	<b>2,631,985</b>
<b>Audit fees</b>		
Opening balance	-	407,001
Current year subscription / fee	1,148,698	1,103,904
Amount paid - current year	(1,148,698)	(1,510,905)
	-	-
<b>PAYE and UIF</b>		
Opening balance	698,707	1,508,944
Current year subscription / fee	8,483,014	6,940,598
Amount paid - current year	(7,737,596)	(6,281,134)
Amount paid - previous years	(698,707)	(1,469,701)
	<b>745,418</b>	<b>698,707</b>
<b>Pension and Medical Aid Deductions</b>		
Opening balance	3,328,573	2,987,625
Current year subscription / fee	11,371,182	4,173,168
Amount paid - current year	(14,098,884)	(3,832,220)
	<b>600,871</b>	<b>3,328,573</b>

## Notes to the Annual Financial Statements

Figures in Rand 2019 2018

### 52. Deviation from supply chain management regulations

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

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

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

<b>Deviations</b>	2019	2018
Roga Motors	827,128	397,027
Bell Equipment	201,594	13,466
Advertising - Ilanga newspaper	194,029	197,581
Anesco Toyota	81,182	81,773
Marias Attorney	212,234	120,517
Dumbe Funerals	49,060	-
Advertising - Isolezwe	17,999	-
Vehicle licencing	-	19,965
Khuphukani Electrical	360,736	-
Tools	-	2,587
Northern Natal Body Works	5,000	-
Road Traffic Management Corporation	48,588	-
Syco Machinery	8,871	-
SALGA	-	7,000
Trans-atlantic Equipment	10,429	-
Umndeni Funerals	5,400	-
Donations	-	20,000
Kambula Electrical	-	115,791
Express Employment	-	15,230
KP Multipurpose	-	69,370
SAGE VIP	-	15,718
Elolam Manufactures	-	289,037
Vuka Timbers	-	4,487
	<b>2,022,250</b>	<b>1,369,549</b>

#### Roga Motors

The municipality currently does not have a licensed petrol bouser/filling station. The municipality operate on a 30 day payment terms. Roga is the only local service provider who agree to the terms on an as and when required basis.

827,128 397,027

#### Bell Equipment

Our plant is the product of Bell Equipment and they have proved to be the only reliable service provider to provide service repairs and maintenance to this plant.

201,594 13,466

#### Advertising

Ilanga newspaper has cheaper advertising rate, which makes them to always win quotations that has resulted in other advertising companies reluctant to quote for us.

194,029 197,581

#### Anesco Toyota

The expenditure was incurred for the service of Toyota vehicle which was sent straight to Anesco as we only have one Toyota garage in town.

81,152 81,773

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>52. Deviation from supply chain management regulations (continued)</b>		
<b>TSS Engineering/ Elolam Manufacturing</b>		
It was emergency due to breakdown of electrical transformer. During the year municipality utilised the services of Elolam Manufactures for the same service provided by TSS Engineers.	-	289,037
<b>KP Multipurpose</b>		
Formal written price quotation was obtained by the municipality however only one service provider responded and the municipality opted to continue with the process and the deviation for minor breach because only one quote received instead of three, even though the correct process was followed.	-	69,370
<b>Khuphukani</b>		
It was emergency due to breakdown of electrical transformer. During the year municipality utilised the services of Elolam Manufactures for the same service provided by TSS Engineers.	360,720	-
<b>Road Traffic Management Corporation</b>		
Sole provider to traffic officers for training	48,588	-
<b>SCM Regulation 17 Awards: Less than three quotations</b>		
Spark and Ellis	53,170	-
Syco Machinery	159,620	-
Ghost Mountain	42,000	-
Anesco Toyota	1,426,194	-
Presenciou Trading Enterprise	49,419	-
	<b>1,730,403</b>	<b>-</b>
<b>Spark Ellis</b>		
Supply and delivery of traffic officers uniform. Only two bidders responded	53,170	-
<b>Syco Machinery</b>		
Upgrading of Licensing and testing centre and compliance system. Only one bidder responded	159,620	-
<b>Ghost Mountain</b>		
Accommodation for Mkhosi Womhlanga	42,000	-
<b>Presenciou Trading Enterprise</b>		
Consolidation and rezoning of Skills Centre.	49,419	-
<b>Anesco Toyota</b>		
Supply and delivery of two bakkies at a value of:	774,364	-
<b>Anesco Toyota</b>		
Supply and delivery of art and culture vehicle	287,855	-
<b>Anesco Toyota</b>		
Supply and delivery of tractor and mower	363,975	-

(Registration number KZN 261)  
 Trading as EDUMBE LOCAL MUNICIPALITY  
 Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>53. Distribution losses</b>		
<b>Electricity</b>		
Number of consumers(Residential and Commercial)	2,921	2,406
Units purchased (kwh)	21,774,438	21,082,361
Units sold (Total)	(13,376,334)	(13,134,580)
	<b>8,398,104</b>	<b>7,947,781</b>
Units own use (Municipal Building)	139,296	130,313
<b>Units lost in Distribution</b>	<b>8,258,808</b>	<b>7,817,468</b>
	38 %	37 %
Percentage lost distribution	-	
Total cost (Expense)	22,142,906	20,044,903
Cost of units purchased	1.00	0.4
	<b>8,258,808</b>	<b>7,416,614</b>

### 54. Budget differences

**Material differences between budget and actual amounts**

## Notes to the Annual Financial Statements

Figures in Rand

2019

2018

### 54. Budget differences (continued)

Material variances over 10 percent are further explained to elaborate the reason for variance

#### Statement of financial performance

##### 54.1 License and permits

Licence and permit is 43% below budget as a result of non testing over weekend. Licensing centre earmarked to be opened on weekends.

##### 54.2 Other Income

There was an amount of fruitless and wasteful adjusted from original budget that resulted in an increase in budget.

##### 54.3 Interest rate debtors

Interest on rate debtors was charged during the course of this financial period. Interest was never charged on rate debtors.

##### 54.4 Fines

Personnel went for training during the course of financial period, one other member was also suspended. Law enforcement officials were short staffed during the period.

##### 54.5 Government grants

Actual for the current period included capital budget and additional grants for sports and recreation and SDF.

##### 54.6 Depreciation and amortisation

There were additional assets acquired during the financial period which were not budgeted for.

##### 54.7 Finance costs

This also includes provision for landfill sites, as a result there was a 39% increase above budget.

##### 54.8 Lease rental

Contract expired during the year, and the process of procurement for other contract took longer.

##### 54.9 Consumables

There was an additional library material purchased that was not budgeted for.

##### 54.10 Actuarial gains and losses

This is a non cash item, dependent on expert report which is performed at year end. It proves to be difficult to budget for as it is dependent on report.

#### Statement of financial position

##### 54.11 Inventories

The inventory on hand was not anticipated as the municipality anticipated spending all inventory on hand.

##### 54.12 Receivables from exchange transactions

The debt collection is not favourable. Means to improve collection are being reassessed by council.

## Notes to the Annual Financial Statements

Figures in Rand

2019

2018

### **54. Budget differences (continued)**

#### **54.13 Receivables from non exchange transaction**

Debt collection was anticipated by municipality is not favourable.

#### **54.14 VAT receivables**

PAYE was offset against the VAT receivable anticipated by municipality.

#### **54.15 Investment proporties**

There was a revaluation of Investment proporties conducted in the financial period. Fair value adjustment resulted in the revaluation.

#### **54.16 Property, plant and equipment**

Additions to property, plant and equipment and capital projects that were not completed that resulted in variance.

#### **54.17 Intangible assets**

Additional sotware were acquired during the financial period.

#### **54.18 Heritage Assets**

No movements on grants as anticipated.

#### **54.19 Payables from exchange transactions**

Cash flow management improved as suppliers were paid on time, and actual expenditure was below the anticipated budget.

#### **54.20 Consumer deposits**

No change from budgeted amount.